

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2002

Note 1 – Significant Accounting Policies

A. Financial Statements and Reporting Entity

The accompanying financial statements of the State of Missouri and its component units have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. The State has elected to not follow the Financial Accounting Standards Board's pronouncements issued after November 30, 1989 for proprietary activities.

The financial statements include the departments, agencies, boards, commissions and other organizational units over which the State has financial accountability. In addition to the Legislative, Executive and Judicial agencies, the following organizations are included in these financial statements:

Primary Government (Blended):

Board of Public Buildings – The Board was created by State law and its governing body is made up of the Governor, the Lieutenant Governor and the Attorney General. Its purpose is to provide State buildings by issuing revenue bonds and to supervise the operations of these facilities. All construction contracts must be approved by the Division of Design and Construction and its projects must be approved by the General Assembly. The Board can require State agencies to occupy its projects. The General Assembly appropriates to the Board, on behalf of the State agencies, amounts sufficient to pay the principal and interest on the bonds, maintain certain required reserves and pay the costs of operations. Copies of the Board of Public Buildings' financial statements can be requested from:

Office of Administration
Deputy Commissioner's Office
P.O. Box 809
Jefferson City, Missouri 65102

Conservation Employees' Insurance Plan – The Plan provides health and life insurance coverage to eligible employees and retirees of the Missouri Department of Conservation. The Plan is administered by a board of trustees. Copies of the Plan's financial statements can be requested from:

Missouri Department of Conservation
P.O. Box 180
Jefferson City, Missouri 65110

Transportation Self-Insurance Plan – The Plan provides fleet vehicle liability, workers' compensation and general liability. The Plan is administered by the Office of Risk Management, which is a Division of the Missouri Department of Transportation. Copies of the financial statements can be requested from:

Missouri Department of Transportation
P.O. Box 270
105 West Capitol
Jefferson City, Missouri 65102

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Note 1 – Significant Accounting Policies (cont.)

Missouri Consolidated Health Care Plan (MCHCP) – The Plan was created by State law to provide medical benefits to its members and is administered by a board of trustees. The board consists of two members of the Senate, two members of the House, six members appointed by the Governor, the Director of the Department of Health and Human Services, the Director of the Department of Insurance and the Commissioner of Administration. The management of MCHCP is the responsibility of the Executive Director who is appointed by the board. Copies of the Plan's financial statements can be requested from:

Missouri Consolidated Health Care Plan
P.O. Box 104355
832 Weathered Rock Court
Jefferson City, Missouri 65110-4355

Highway and Transportation Employees' and Highway Patrol Insurance Plan – The Plan provides health and life insurance coverage to eligible employees, retirees and their dependents of the Missouri Department of Transportation and the Missouri State Highway Patrol. The Plan is administered by a board of trustees. Copies of the Plan's financial statements can be requested from:

Missouri Department of Transportation
P.O. Box 270
105 West Capitol
Jefferson City, Missouri 65102

Missouri State Employees' Retirement System (MOSERS) – The System was created by State law and provides retirement, survivor, disability and life insurance to its members and is administered by a board of trustees. The board consists of two members of the Senate, two members of the House, two members appointed by the Governor, three members elected by the System's members, the State Treasurer and the Commissioner of Administration. The management of MOSERS is the responsibility of the Executive Director who is appointed by the board. Copies of the System's financial statements can be requested from:

Missouri State Employees' Retirement System
P.O. Box 209
907 Wildwood
Jefferson City, Missouri 65102-0209

Highway and Transportation Employees' and Highway Patrol Retirement System – The System provides retirement, death and disability benefits to qualified employees of the Missouri Highways and Transportation Commission (includes employees of the Department of Transportation), and uniformed and non-uniformed members of the State Highway Patrol. The System is administered by a board of trustees consisting of three members of the Missouri Highways and Transportation Commission, the director of the Missouri Department of Transportation, the superintendent of the State Highway Patrol, one member of the Senate, one member of the House, one member elected by MoDOT employees, one member elected by Patrol employees, and one retired member elected by retirees of the system. Copies of the System's financial statements can be requested from:

Missouri Highway and Transportation Employees'
and Highway Patrol Retirement System
P.O. Box 1930
Jefferson City, Missouri 65102-1930

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Note 1 – Significant Accounting Policies (cont.)

Missouri State Public Employees' Deferred Compensation Commission – The Commission consists of one member of the House of Representatives, one member of the Senate and three other members appointed by the Governor with the advice and consent of the Senate. The Commission offers all employees the opportunity to participate in the Missouri State Public Employees' Deferred Compensation Plan. Under this Plan, employees are permitted to defer a portion of their current salary until future years. This Plan's fiscal year ends December 31, therefore, financial statements for its reporting period ending December 31, 2001, have been included in this report. In addition, the Commission offers eligible employees the opportunity to participate in the Missouri State Employees' Deferred Compensation Incentive Plan. Under this Plan, the State contributes \$25 per month on behalf of any employee who contributes at least that amount to the Missouri State Public Employees' Deferred Compensation Plan and who has been an employee of the State for at least one year. Copies of financial statements for both Plans can be requested from:

PEBSCO – A Division of Nationwide
Retirement Solutions, Inc.
One Nationwide Plaza, 1-13-G1
Columbus, Ohio 43215-2220

Component Units (Discretely Presented):

Major

Colleges and Universities – The Coordinating Board for Higher Education has certain responsibilities for these institutions and they receive State support. Following are the public colleges and universities included in the financial statements:

Central Missouri State University
213 Administration Building
Warrensburg, Missouri 64093

Northwest Missouri State University
105 Administration Building
800 University Drive
Maryville, Missouri 64468-6001

Harris-Stowe State College
3026 Laclede Avenue
St. Louis, Missouri 63103

Southeast Missouri State University
One University Plaza, Mail Stop 3000
Cape Girardeau, Missouri 63701

Lincoln University
207 Young Hall
Jefferson City, Missouri 65101

Southwest Missouri State University
901 South National, Room 119
Springfield, Missouri 65804

Linn State Technical College
1 Technology Drive
Linn, Missouri 65051

Truman State University
McClain Hall, Room 105
Kirksville, Missouri 63501

Missouri Southern State College
3950 East Newman Road
Joplin, Missouri 64801-1595

University of Missouri-Columbia
118 University Hall
Columbia, Missouri 65211

Missouri Western State College
4525 Downs Drive
St. Joseph, Missouri 64507

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Note 1 – Significant Accounting Policies (cont.)

Non-Major

Development Finance Board – The Board was created by State law to promote economic development of the State and is assigned to the Department of Economic Development. The Governor, with the approval of the Senate, appoints nine board members. The Lieutenant Governor and the Directors of the Department of Economic Development and the Department of Agriculture serve as ex-officio members. The Board provides loans and loan guarantees for the benefit of businesses operating in Missouri and loans, low-interest loans, or grants to State agencies and local governments for public infrastructure improvements. The State appropriates money to the Board for the purpose of making loan guarantees. Copies of the Board's financial statements can be requested from:

Missouri Development Finance Board
Harry S Truman State Office Building, Room 680
301 West High Street
Jefferson City, Missouri 65101

Agricultural and Small Business Development Authority – The Authority was created by State law and is authorized to issue bonds to finance agricultural and small business development loans for property acquisitions/renovations and pollution control facilities throughout the State. Its governing body consists of seven members appointed by the Governor with the advice and consent of the Senate. If for any reason, the Authority ceases to exist, all rights and properties of the Authority will pass to the State. Copies of the Authority's financial statements can be requested from:

Missouri Agricultural and Small
Business Development Authority
P.O. Box 630
1616 Missouri Boulevard
Jefferson City, Missouri 65102

Fulton 54 Transportation Corporation – The Corporation is a not-for-profit corporation organized under the Missouri Transportation Corporation Act. It is authorized to issue revenue bonds for the purpose of paying all or any part of the cost for the acquisition and construction of an overpass at the intersection of Route HH and U.S. Highway 54. Its governing body consists of a board of directors appointed by the Missouri Highways and Transportation Commission. When the purpose for which the Corporation was formed have been complied with and all obligations of the Corporation have been paid, the board shall, with the approval of the Commission, dissolve the Corporation. Upon dissolution, any assets of the Corporation will be liquidated and deposited in the State Road Fund and will become the property of the Commission. Copies of the Corporation's financial statements can be requested from:

Missouri Department of Transportation
P.O. Box 270
105 West Capitol
Jefferson City, Missouri 65102

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Note 1 – Significant Accounting Policies (cont.)

Missouri Transportation Finance Corporation – The Corporation is a not-for-profit corporation organized under the Missouri Nonprofit Corporation Law. The Corporation is financed by federal highway and transit dollars, plus State and local matching funds. It is authorized to issue revenue bonds. The Corporation provides loans to finance projects approved by the Missouri Highways and Transportation Commission. Copies of the Corporation's financial statements can be requested from:

Missouri Department of Transportation
P.O. Box 270
105 West Capitol
Jefferson City, Missouri 65102

Missouri Highway 179 Transportation Corporation – The Corporation is a not-for-profit corporation organized under the Missouri Transportation Corporation Act. It is authorized to issue revenue bonds for the purpose of paying all or any part of the cost of paving, grading, constructing, expanding, improving, or financing any facility constituting a "project" under the Missouri Transportation Corporation Act. Its governing body consists of a board of directors appointed by the Missouri Highways and Transportation Commission. When the purpose for which the Corporation was formed have been complied with and all obligations of the Corporation have been paid, the board shall, with the approval of the Commission, dissolve the Corporation. Upon dissolution, any assets of the Corporation will be liquidated and deposited in the State Road Fund and will become the property of the Commission. Copies of the Corporation's financial statements can be requested from:

Missouri Department of Transportation
P.O. Box 270
105 West Capitol
Jefferson City, Missouri 65102

Springfield, MO State Highway Improvement Corporation – The Corporation is a not-for-profit corporation organized under the Missouri Transportation Corporation Act. It is authorized to issue revenue bonds for the purpose of paying all or any part of the cost of paving, grading, constructing, expanding, improving, or financing any facility constituting a "project" under the Missouri Transportation Corporation Act. Its governing body consists of a board of directors appointed by the Missouri Highways and Transportation Commission. When the purpose for which the Corporation was formed have been complied with and all obligations of the Corporation have been paid, the board shall, with the approval of the Commission, dissolve the Corporation. Upon dissolution, any assets of the Corporation will be liquidated and deposited in the State Road Fund and will become the property of the Commission. Copies of the Corporation's financial statements can be requested from:

Missouri Department of Transportation
P.O. Box 270
105 West Capitol
Jefferson City, Missouri 65102

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Note 1 – Significant Accounting Policies (cont.)

Wentzville Parkway Transportation Corporation – The Corporation is a not-for-profit corporation organized under the Missouri Transportation Corporation Act. The Corporation has issued bonds to finance the expansion and reconstruction of the Pearce Boulevard Interchange. Its governing body consists of a board of directors appointed by the Missouri Highways and Transportation Commission. When the purpose for which the Corporation was formed have been complied with and all obligations have been paid, the board shall, with the approval of the Commission, dissolve the Corporation. Upon dissolution, any assets of the Corporation will be liquidated and deposited in the State Road Fund and will become the property of the Commission. Copies of the Corporation's financial statements can be requested from:

Missouri Department of Transportation
P.O. Box 270
105 West Capitol
Jefferson City, Missouri 65102

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements:

The Statement of Net Assets and Statement of Activities report information on all non-fiduciary activities of the primary government and its component units. Primary government activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The **Statement of Net Assets** presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, or imposed by law through constitutional provisions or enabling legislation. Net assets restricted by enabling legislation are subject to change by a majority vote of the Legislative Assembly.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

The **Statement of Activities** demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Certain indirect costs are included in the direct expenses reported for individual functions. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are instead reported as general revenue.

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Note 1 – Significant Accounting Policies (cont.)

Fund Financial Statements:

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide statements. For governmental and proprietary funds financial statements, the emphasis is on major individual governmental and enterprise fund categories, with each displayed in a separate column. All remaining governmental and enterprise fund categories are aggregated and reported as non-major funds. Internal service fund categories are also aggregated and reported in a separate column on the proprietary funds financial statements.

C. Basis of Presentation

The State's financial practices are based upon fund accounting concepts. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and fund balances, and changes therein.

The accompanying financial statements are structured into three categories of funds and component units:

Primary Government:

Governmental Funds include the General Fund, Special Revenue Funds, Debt Service Funds, Capital Projects Funds, and Permanent Funds. These funds account for the revenues and expenditures, capital outlay, and certain debt service of the State.

Proprietary Funds include Enterprise Funds and Internal Service Funds. These funds account for the cost of certain services provided by the State, presenting the assets and liabilities associated with the service on the Statement of Changes in Net Assets, and presenting the revenues, expenses and net income on the Statement of Revenues, Expenses, and Changes in Net Assets.

Fiduciary Funds include Pension Trust Funds, Private-Purpose Trust Funds, and Agency Funds. These funds account for assets held by the State in a trustee capacity or as an agent for individuals, other governments and other funds.

Component Units:

Major

College and University Funds account for moneys from federal and state grants, debt proceeds, gifts and contributions, state appropriations, investments, and endowments. Assets and liabilities are accounted for on the Statement of Changes in Net Assets. Revenues, expenses, gains, and losses are reported on the Statement of Revenues, Expenses, and Changes in Net Assets.

Non-Major

Development Finance Board accounts for moneys from bond proceeds, gifts and grants to make loans for industrial development.

Agricultural and Small Business Development Authority accounts for moneys from bond proceeds, gifts, and grants to make loans for property acquisitions/renovations and pollution control facilities.

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Note 1 – Significant Accounting Policies (cont.)

Fulton 54 Transportation Corporation accounts for moneys from bond proceeds to pay for projects under the Missouri Transportation Corporation Act.

Missouri Transportation Finance Corporation accounts for moneys from federal, State or local sources and from bond proceeds to be used for projects approved by the Missouri Highways and Transportation Commission.

Missouri Highway 179 Transportation Corporation accounts for moneys from bond proceeds to pay for projects under the Missouri Transportation Corporation Act.

Springfield, MO State Highway Improvement Corporation accounts for moneys from bond proceeds to pay for projects under the Missouri Transportation Corporation Act.

Wentzville Parkway Transportation Corporation accounts for moneys from bond proceeds to pay for projects under the Missouri Transportation Corporation Act.

D. Measurement Focus and Basis of Accounting

Measurement Focus:

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

Governmental Funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Proprietary, Pension Trust, and Private-Purpose Trust Funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, assets and liabilities associated with the operation of these funds are included on the statement of net assets. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Agency Funds are custodial in nature and do not present results of operations or have a measurement focus.

Component units are accounted for on a flow of economic resources measurement focus.

Government-Wide Financial Statements:

The government-wide financial statements are presented using the economic resources management focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when incurred. Fiduciary Funds have been excluded from the government-wide financial statements because by definition, the resources of these funds cannot be used to support government operations. Generally, interfund transactions have also been eliminated. Some interfund transactions, such as the exchange of services, were not eliminated because doing so would mistakenly understate both expenses of the buyer and revenues of the seller.

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Note 1 – Significant Accounting Policies (cont.)

Fund Financial Statements:

Governmental Funds are presented on a modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to pay current period liabilities. Material revenues susceptible to accrual include federal grants, income tax and sales tax. Expenditures are recognized when the related fund liability is incurred except for the following:

- Principal and interest on general long-term debt is recorded as an expenditure when due.
- Compensated absences (accumulated vacation and compensatory time) and sick pay are recorded as expenditures when paid.
- Inventories are reported as expenditures when purchased, except for the State Road Fund, which updates inventory perpetually under the consumption method.

Proprietary, Pension Trust, Private-Purpose Trust, and Agency Funds are presented on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the period earned and expenses are recognized in the period incurred.

Component units are presented on the accrual basis of accounting with the following exception in regard to colleges and universities. Revenues and related expenditures in connection with the summer sessions in progress at June 30 are deferred at that date.

The State reports the following major funds:

General Fund – accounts for all current financial resources not required by law or administrative action to be accounted for in another fund.

Public Education – provides general and special education needs of the State and other related areas such as library services and student loans.

Conservation and Environmental Protection – provides for the preservation of the State's wildlife and environment.

Transportation and Law Enforcement – provides transportation services, road construction and maintenance, and the enforcement of vehicle laws and traffic safety.

State Road – accounts for revenues from highway users' fees, federal reimbursements for highway projects, and bond proceeds to be used for costs of constructing and maintaining an adequate state highway system.

State Lottery – accounts for proceeds from the sale of lottery tickets and all other moneys credited or transferred to this fund. A minimum of 45% of the moneys are used for prizes.

Unemployment Compensation – accounts for contributions and payments collected under the provisions of the "Unemployment Compensation Law" to pay benefits.

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Note 1 – Significant Accounting Policies (cont.)

The State also reports the following non-major fund types:

Governmental – accounts for current financial resources of the government. Governmental Funds include Special Revenue Funds which are established for a specific function, Debt Service Funds which accumulate resources for the payment of long-term debt principal and interest, and Capital Projects Funds which accumulate resources for the acquisition of capital assets.

Proprietary – accounts for operations that are funded through fees or a cost reimbursement basis. Proprietary Funds include Enterprise Funds which sell products and services to external parties and Internal Service Funds which sell products and services to other government agencies.

Fiduciary – accounts for assets held by the State in a trustee or agent capacity. Examples of such assets include Missouri State Employees' Retirement System, social security contributions, and unclaimed property.

E. Budgets

The State's annual budget is prepared principally on the cash basis and represents departmental appropriations recommended by the Governor and passed by the General Assembly prior to the beginning of the fiscal year. Appropriations can only be amended through the normal appropriation process which requires approval of the General Assembly and the Governor. Certain estimated original appropriation amounts may be increased as necessary. If supplemental appropriations are required for an appropriation year, they are enacted during the next General Assembly by the same process used for original appropriations. During the year supplemental appropriations of \$174,828,913 were required, 80% for Human Services, 10% for Transportation and Law Enforcement, 5% for Education and the remainder for other functions. Estimated appropriations were increased by \$2,522,121,367.

Budgetary control is maintained at the individual appropriation level since expenditures cannot exceed the appropriation amounts. Also, the Governor has the authority to reduce the allotments of appropriations in any fund if it appears that revenues for the fiscal year will fall below estimated revenues. Unexpended appropriations lapse at the end of each appropriation year. Certain appropriations referred to as "reappropriations" represent the continuation of a prior year's program or project which requires additional time for completion. Reappropriations to fiscal year 2002 totaled \$978,249,839.

F. Cash and Cash Equivalents

For reporting purposes, cash and cash equivalents include bank accounts, petty cash and all investments with an original maturity of three months or less such as certificates of deposit, money market certificates and repurchase agreements. Cash balances of most State funds are pooled and invested by the State Treasurer.

G. Investments

These are long-term investments which are expected to be held to maturity and redeemed at face value. The majority are investments of the Pension Trust Funds and are stated at fair value. The remainder belong to the General, various Special Revenue, Enterprise, Internal Service, Private-Purpose Trust, and Agency Funds and are stated at fair value. The Missouri State Public Employees' Deferred Compensation Plan's investments are reported in units of fixed and variable annuities at fair value.

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Note 1 – Significant Accounting Policies (cont.)

H. Receivables

Receivables include primarily federal revenue amounts, accrued interest on investments and taxes receivable. Receivables are reported net of allowances for uncollectibles of \$1,156,262,817, where applicable.

I. Interfund Receivables/Payables

The State makes various transactions between funds or between primary government and component units to distribute interest earnings, finance operations, provide services, service debt and for capital outlay. These receivables at June 30 are classified as "due from other funds" or "due from primary government/component units" on the balance sheet. Payables are classified as "due to other funds" or "due to primary government/component units" on the balance sheet.

J. Advances to Other Funds

Long-term interfund receivables are reported as advances in all funds.

K. Inventories

Inventories in the Governmental Funds consist of expendable supplies held for consumption, the cost of which is recorded as an expenditure at the time of purchase, except for the State Road Fund, which updates inventory perpetually under the consumption method. Reserves of fund balance have been established for the inventory balances. Inventories in the Proprietary Funds consist of both expendable supplies held for consumption and the cost of goods held for resale, the cost of which is recorded as an expense as they are used. Inventories are valued at cost using various methods such as moving average, weighted average and first-in, first-out.

L. Deferred Charges

Deferred charges represent issuance costs on bonds and are amortized over the life of the related issue.

M. Restricted Assets

These moneys are restricted by applicable bond indentures for revenue bonds.

N. Capital Assets

Capital assets, which include construction in progress, infrastructure in progress, land, land improvements, buildings, equipment, and infrastructure assets, are valued at historical cost or estimated historical cost if actual historical cost is not available. The estimate of historical cost was based on current appraised value indexed to the date of acquisition. Donated capital assets are reported at estimated fair value at the time received. Capital assets acquired through lease agreements are capitalized at the inception of the agreement (see *Note 5 and 6*).

Infrastructure assets (including highways, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items) are capitalized. Interest costs incurred during construction of fixed assets are not capitalized. Infrastructure constructed prior to July 1, 2001, has been recorded at an estimated value of \$35,522,736,290. The estimated historical cost for years 1909–2001 was based on the current average cost per lane mile for roadways and per square foot for bridges.

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The capitalization threshold for all fixed assets is as follows: land improvements, \$15,000; buildings and improvements, \$15,000; and equipment, \$1,000. No dollar threshold is set for land or infrastructure.

Capital assets are depreciated using the straight-line method of depreciation over the following useful lives: buildings – 40 years, land improvements and building improvements – 20 years, equipment – 5 years, and infrastructure 12 to 50 years. Construction in progress, infrastructure in progress, and land are not depreciated.

Most works of art and historical treasures are not capitalized or depreciated. The State's non-capitalized collections include the historical artifacts at the various state museums and historical sites, and monuments and other art throughout the capital grounds. Assets that were previously capitalized continue to be reported in the government-wide financial statements.

Component Units fixed assets are stated at cost and are depreciated for the full year using the straight-line method of depreciation over the following useful lives: buildings – 40 years, land improvements and building improvements – 20 years, and equipment – 5 years.

O. Deferred Revenues

Primary Government

Deferred revenues are those for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met for governmental funds, which use the modified accrual basis of accounting on the fund financial statements. Therefore, such amounts are reported within the governmental fund financial statements as receivables and offset by a deferred revenue account. These amounts include \$187,686,000 within the General Fund, \$22,734,000 within the Major Special Revenue Funds, \$27,224,000 within the State Road Fund, and \$4,098,000 within Non-Major Governmental Funds. Such amounts have been deemed to be measurable but not available. For the State of Missouri, the availability period is 60 days.

Deferred revenues also include amounts collected in advance of the year in which earned. The State has reported as such deferred revenues the amount of \$101,365,000 within the General Fund, \$1,878,000 within Major Special Revenue Funds, \$2,200,000 within the State Road Fund, \$1,000 within the Non-Major Governmental Funds, \$615,000 within the Non-Major Enterprise Funds, and \$26,519,000 within the Internal Service Funds.

Component Units

Deferred revenue amounts collected in advance of the year in which earned are reported in the amount of \$57,977,000 within the College and University Funds and \$40,273,000 within the Non-Major Component Units.

P. Long-Term Debt

Long-term liabilities that will be financed from Governmental Funds are not reported on the fund financial statements. However, the long-term liabilities are reported on the government-wide financial statements. The reconciliation between fund financial statements and government-wide financial statements includes a line item for governmental funds long-term liabilities. These long-term liabilities include the following:

1. Outstanding principal for general obligation debt is included. The expenditure and any related liability for payment of principal and interest for general obligation debt are recorded in the Debt Service Funds when paid (see *Note 17*).

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2. Outstanding principal for revenue bonds issued by the Board of Public Buildings, bonds issued by the Regional Convention and Sports Complex Authority, and transportation revenue bonds issued by the Fulton 54 Transportation Corporation, the Missouri Highway 179 Transportation Corporation, the Springfield, MO State Highway Improvement Corporation, and the Wentzville Parkway Transportation Corporation. The expenditure and any related liability for payment of principal and interest for these bonds are recorded in the appropriate governmental funds when paid (see *Note 11*).
3. The net pension obligation of the Missouri State Employees' Retirement System is included and will be paid from the General Revenue Fund and the Special Revenue Funds. The net pension obligation is the portion of the actuarially determined contributions not made plus interest on the balance of underfunded/overfunded contributions of prior years (see *Note 7*).
4. Compensated absences include accumulated unpaid vacation and compensatory time accruals and additional amounts for salary-related payments associated with the payment of vacation and compensatory time. These amounts are not accrued in the Governmental Funds but are recorded as expenditures when paid (see *Note 10*).

Vacation leave is accumulated at a rate of 10 to 14 hours a month depending on the number of years of employment. Accumulated vacation leave cannot exceed the number of vacation hours earned in a two year period. Compensatory time is accumulated as earned by an individual employee.

Sick leave is accumulated at a rate of 10 hours per month with no limit to the amount which can be accumulated. Accumulated sick leave is not paid upon employee termination and does not represent a liability of the State.

The expenditures for all compensated absences are made primarily from the General Fund, Special Revenue Funds and a Capital Projects Fund.

5. Obligations under lease/purchases reported include the present value of net minimum future lease payments, which will be paid from the General Fund, various Special Revenue funds, the State Road Fund, as well as Enterprise Funds and Internal Service Funds (see *Note 6*).
6. Claims and judgements include estimates of the risk of loss related to tort liability, general liability, motor vehicle liability, contractor liability, injuries to employees and desegregation. Claims liabilities are reported when it is probable that a loss has occurred and the amount of loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Expenditures are recorded in the fund from which the liability is paid. This is included with payables on the combined balance sheet (see *Note 10*).

Long-term liabilities of all Proprietary, Pension Trust, and Private-Purpose Trust Funds are accounted for in the respective funds.

Q. Net Assets/Fund Balance

The difference between fund assets and liabilities is reported as "Net Assets" on the government-wide, proprietary, and fiduciary fund statements, and "Fund Balance" on the governmental fund financial statements. A description of "Restricted Net Assets" is presented in Part B of this note.

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On the governmental statements, “reserves” represent those portions of fund balance not available for expenditure or legally segregated for a specific future use. Following is a list of reserves used by the State of Missouri and a description of each:

Reserved for Budget Reserve – An account which includes \$471,048,306 in the Budget Reserve Fund used to meet the cash flow requirements and program funding requirements of the State.

Reserved for Inventory – An account used to segregate a portion of fund balance to indicate that inventory does not represent available, spendable resources even though it is a component of assets.

Reserved for Future Distribution – An account used to segregate a portion of fund balance for the specific future use of other entities.

Reserved for Taxes – An account used to segregate a portion of fund balance for taxes received for which payment was made under protest and for bonds filed by license holders for security against default of payment of tax liabilities.

Reserved for Debt Service – An account used to segregate a portion of fund balance for debt service resources legally restricted to the payment of general long-term debt principal and interest amounts maturing in future years.

Reserved for Loans Receivable – An account used to segregate portions of fund balance and retained earnings to indicate that the long-term portion of loans receivable does not represent available, spendable resources even though it is a component of assets, or to meet requirements of loan agreements.

Reserved for Trust Principal – An account used to segregate a portion of fund balance to indicate the principal amount of Permanent Funds that are legally restricted for a specific future purpose.

R. Revenues

The revenues of the General Fund include federal grants and contributions of \$5,484,716,000. Revenues for all funds are reported net of refunds of \$1,408,165,000.

S. Interfund Transactions

During the fiscal year the State incurs various transactions between funds, including expenditures and transfers of resources to distribute interest earnings, finance operations, provide services, construct assets and service debt. Interfund transactions basically consist of these two types:

1. Transactions that would be treated as revenues, expenditures or expenses if they involved organizations external to the State are similarly treated when involving other funds of the State. Major transactions that fall into this category include payments to Internal Service Funds from other funds for services rendered and to Agency Funds for contributions for employee benefits.
2. Transfers from funds receiving revenues to funds through which the resources are to be expended and operating subsidies are classified as operating transfers (see *Note 14*).

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2002

Note 1 – Significant Accounting Policies (cont.)

T. Expenditures and Expenses

Expenditures and expenses are reported net of revenue overcollections of \$1,159,734,000 and \$161,000, respectively. Expenditures and expenses are reported net of overpayments to vendors, individuals, school districts and for cost reimbursements of \$247,520,000 and \$749,000, respectively.

U. Property Taxes

Presently there is a State property tax of three cents on each hundred dollars assessed valuation on all real estate and personal property. The tax collected is deposited into the Blind Pension Fund.

The property taxes in Missouri are levied by October 31 of each year on assessed valuation as of January 1 of that year. Property taxes are due and payable by December 31 and penalties on unpaid taxes are imposed after that date. Assessed values are established by each county assessor's office and are calculated as a percent of market value except for agricultural land which is calculated on productive capability. The percentage for real property varies according to use: residential at 19%, commercial at 32% and agricultural at 12%. Personal property is assessed according to type with the majority at 33 1/3% of market value.

Note 2 – Reporting Changes and Reclassifications

The State of Missouri implemented the following new accounting standards issued by the Governmental Accounting Standards Board (GASB) for the fiscal year ended June 30, 2002:

- Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*,
- Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*,
- Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*,
- Statement No. 38, *Certain Financial Statement Note Disclosures*, (with the exception of paragraph 12 "Short-Term Debt" and paragraph 13 "Disaggregation of Receivable and Payable Balances" which are not required to be implemented until the fiscal year ended June 30, 2003),
- Statement No. 39, *Determining Whether Certain Obligations are Component Units*.

Statement 34, as amended by Statement 37, represents a significant change to the financial reporting model used by the State. Some of the changes include the addition of government-wide financial statements, which summarize information for governmental activities, business-type activities, and discretely presented component units. These statements are prepared under the full accrual basis of accounting, as opposed to the modified accrual basis of accounting used in the governmental fund financial statements. Infrastructure assets (mainly roads and bridges) are now reported as capital assets on the Government-Wide Statement of Net Assets. These assets were not previously required to be included in the financial statements. Assets previously reported in the General Fixed Asset Account Group are now reported as a reconciling item between the governmental fund financial statements and the government-wide financial statements. Liabilities previously reported in the General Long-Term Debt Account Group are similar reconciling items.

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2002

Note 2 – Reporting Changes and Reclassifications (cont.)

An additional requirement of Statement 34 is to report “major” funds separately on the governmental, enterprise, and component unit financial statements. The General operating fund of the government is always a major fund. Other funds are evaluated based on these criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of that fund are at least 10% of the total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the fund are at least 5% of the total for all governmental, enterprise, and component units combined.

It is only necessary for a fund to meet the criteria in one category (assets, liabilities, revenues, expenditures/expenses) to qualify as a major fund. For Missouri, this includes the following fund categories: Public Education, Conservation and Environmental Protection, State Lottery, and Unemployment Compensation. In addition, any other governmental, enterprise, or component unit fund that the government’s officials believe is particularly important to financial statement users may be reported as a major fund. For Missouri, this includes the Transportation and Law Enforcement Fund category as well as the State Road Fund.

Statement 35 creates new financial reporting standards for public colleges and universities within the reporting guidelines of Statement 34. All of the State’s public colleges and universities have adopted Statement 35. The State of Missouri’s public colleges and universities have been combined together as a Major component unit of the State.

Statement 38 modifies, establishes, and rescinds certain financial statement disclosure requirements to be put in effect when Statement 34 is implemented.

Statement 39 amends Statement 14, *The Financial Reporting Entity*. Statement 39 establishes guidelines for reporting certain organizations as component units of the primary government. Organizations for which the primary government is not financially accountable may be reported as component units because of the nature and significance of their relationship with the primary government.

As a result of these standards, fund reclassifications and adjustments to fund equities reported in the prior financial statements were required. See *Note 15 – Restatements* for the amount of the restatements due to fund reclassifications. The majority of the fund reclassifications were due to the implementation of GASB 34. The following table is a summary of all State funds that were reclassified during fiscal year 2002:

Fund Name	Fiscal Year 2001	Fiscal Year 2002
Utilicare Stabilization	General Fund	Special Revenue
Mental Health Interagency Payments	General Fund	Internal Service
Department of Revenue Information	Special Revenue	Enterprise
Board of Public Buildings*	Enterprise	Internal Service
Confederate Memorial Park	Non-Expendable Trust	Permanent
State Public School	Non-Expendable Trust	Permanent
Smith Memorial Endowment Trust	Non-Expendable Trust	Permanent
Missouri Investment Trust	Non-Expendable Trust	Permanent
Handicapped Children’s Trust	Expendable Trust	Special Revenue
Missouri National Guard Trust	Expendable Trust	Special Revenue
Agriculture Development	Expendable Trust	Special Revenue

*This fund is now included with State Facility Maintenance and Operations as an Internal Service Fund.

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2002

Note 2 – Reporting Changes and Reclassifications (cont.)

<u>Fund Name</u>	<u>Fiscal Year 2001</u>	<u>Fiscal Year 2002</u>
Babler State Park	Expendable Trust	Special Revenue
School for Blind	Expendable Trust	Special Revenue
School for Deaf	Expendable Trust	Special Revenue
Institution Gift Trust	Expendable Trust	Special Revenue
Crippled Children	Expendable Trust	Special Revenue
Unemployment Compensation	Expendable Trust	Enterprise
Petroleum Storage Tank Insurance	Expendable Trust	Enterprise
Unclaimed Property	Expendable Trust	Private-Purpose Trust
Alternative Care Trust	Expendable Trust	Private-Purpose Trust
Johnson-Travis Memorial Trust	Expendable Trust	Private-Purpose Trust
Missouri State Public Employees' Deferred Compensation Plan	Expendable Trust	Private-Purpose Trust

Note 3 – Deposits, Investments and Securities Lending Program

The State Treasurer maintains a cash and short-term investment pool that is used by substantially all State funds. These funds do not include accrued interest. Certain organizational units are authorized to administer assets designated to their organization in a manner similar to the deposit and investment activities of the State as a whole. Summarized below is the portfolio that represents the "Cash and Cash Equivalents", "Investments", "Restricted Assets – Cash and Cash Equivalents", "Restricted Assets – Investment" and "Bank Overdraft" as reported at June 30, 2002.

A. Deposits

Primary Government

At June 30, 2002, the reported amount of the primary government's deposits was \$1,414,238,000 and the bank balance was \$1,492,286,000. Of the bank amount, \$1,194,558,000 was insured or collateralized with securities held by the State or its agent in the State's name, \$297,728,000 was collateralized with securities held by the counterparty's trust department or agent in the State's name.

Fiduciary

At June 30, 2002, the reported amount of the deposits of the Fiduciary Funds was \$81,214,000 and the bank balance was \$90,682,000. All of the bank amount was insured or collateralized with securities held by the entity or its agent in the entity's name.

Component Units

At June 30, 2002, the reported amount of the deposits of the Component Units was \$470,061,000 and the bank balance was \$472,733,000. Of the bank amount, \$389,177,000 was insured or collateralized with securities held by the Component Units or its agent in the Component Units' name, \$77,635,000 was collateralized with securities held by the counterparty's trust department or agent in the Component Units' name, and \$5,921,000 was uninsured and uncollateralized with securities held by the counterparty, trust department or agent not in the Component Units' name.

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2002

Note 3 – Deposits, Investments and Securities Lending Program (cont.)

B. Investments

Statutes authorize the State Treasurer to invest in U.S. Treasury or Agency securities maturing within three years or in repurchase agreements maturing within ninety days secured by U.S. Treasury or Agency securities of any maturity. The Internal Service Funds, the Agency and Pension Trust Funds, and the Component Units, in accordance with statutory authority, invest primarily in U.S. Government securities, repurchase agreements, preferred and common stocks, bonds, real estate, and fixed income securities. There have been no violations of these investment restrictions during fiscal year 2002.

The following table (in thousands of dollars) provides information about the credit risks associated with the State's investments. The investments include certain short-term cash equivalents, various long-term items, and restricted assets. Category 1 includes investments that are insured or registered, or for which securities are held by the State or its agent in the State's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the State's name. Category 3 includes uninsured and unregistered investments, for which securities are held by the counterparty or by its trust department or agent but not in the State's name. The State's ratings for these investments from Fitch IBCA, Incorporated and Standard and Poor's is rating group AAA and from Moody's Investors Services is rating group Aaa.

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Reported Amount</u>	<u>Fair Value</u>
All Fund Types except Fiduciary Funds and Component Units:					
U.S. Government Securities	\$ 1,604,536	\$ ---	\$ ---	\$ 1,604,536	\$ 1,612,823
Repurchase Agreements	<u>568,216</u>	<u>1,606</u>	<u>---</u>	<u>569,822</u>	<u>569,822</u>
Subtotal	<u>2,172,752</u>	<u>1,606</u>	<u>---</u>	<u>2,174,358</u>	<u>2,182,645</u>
Fiduciary Funds:					
U.S. Government Securities	369,255	---	277,781	647,036	647,036
Repurchase Agreements	252,242	2,284	---	254,526	254,526
Stocks	1,409,155	---	753,882	2,163,037	2,163,037
Bonds	538,690	---	109,619	648,309	648,309
International Equities	866,048	---	---	866,048	866,048
International Corp. Bonds	38,323	---	---	38,323	38,323
Short-Term Securities	---	---	53,408	53,408	53,408
Debentures	<u>---</u>	<u>---</u>	<u>32,316</u>	<u>32,316</u>	<u>32,316</u>
Subtotal	<u>3,473,713</u>	<u>2,284</u>	<u>1,227,006</u>	<u>4,703,003</u>	<u>4,703,003</u>
Investments Not Subject to Categorization:					
Short-Term Investment Fund				383,864	383,864
Real Estate				403,968	403,968
Investments Made With Another Party				978,593	978,593
Deferred Compensation				861,467	861,467
Foreign Securities				19,428	19,428
EAFE Index Fund				294,028	294,028
Venture Capital Limited Partnership				<u>115</u>	<u>115</u>
Subtotal				<u>7,644,466</u>	<u>7,644,466</u>

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2002

Note 3 – Deposits, Investments and Securities Lending Program (cont.)

	Category 1	Category 2	Category 3	Reported Amount	Fair Value
Component Units:					
U.S. Government Securities	475,705	43,215	10,867	529,787	509,041
Repurchase Agreements	---	17,412	---	17,412	17,412
Stocks	350,450	---	---	350,450	350,499
Bonds	215,866	---	---	215,866	214,619
Other	29,817	---	---	29,817	29,817
Subtotal	<u>1,071,838</u>	<u>60,627</u>	<u>10,867</u>	1,143,332	1,121,388
Investments Not Subject to Categorization:					
Money Market				1,687	1,687
Real Estate				<u>29,009</u>	<u>29,009</u>
Subtotal				<u>1,174,028</u>	<u>1,152,084</u>
Total Investments Subject to Categorization	<u>\$ 6,718,303</u>	<u>\$ 64,517</u>	<u>\$ 1,237,873</u>		
Total Investments				<u>\$ 10,992,852</u>	<u>\$ 10,979,195</u>

C. Securities Lending Program

Missouri State Employees' Retirement System:

The Missouri State Employees' Retirement System's (MOSERS) Board of Trustees' policies permits the Pension Trust Funds to participate in securities lending programs. Lehman Brothers, who acts as the exclusive borrower of the domestic equity securities and Credit Suisse/First Boston, who manages the lending of fixed income and international securities, manage the programs. Certain securities of the Pension Trust Funds are loaned to participating brokers who provide collateral in the form of cash, U.S. Treasury or Government Agency securities, or letters of credit issued by approved banks. Collateral must be provided in the amount of 102% for domestic loans and 105% for international loans. There are no restrictions on the amount of the loans that can be made. The Custodian (Bankers Trust Company) provides for full indemnification to the Pension Trust Funds for any losses that might occur in the program due to broker default, insufficiency of collateral, or operations risk associated with corporate actions and income collection. Full indemnification and daily monitoring of securities that are on loan ensure proper collateralization levels and mitigate counterparty risk.

The majority of the security loans are open loans and can be terminated on demand by either MOSERS or the borrower. Cash collateral is invested in short-term investment funds. The cash collateral investments of the Lehman Brothers and Credit Suisse program each had a weighted average maturity of 25 days as of June 30, 2002.

Investment income derived from the domestic loans and international equity lending programs are subject to minimum guarantees.

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2002

Note 3 – Deposits, Investments and Securities Lending Program (cont.)

Missouri Highway and Transportation Employees' and Highway Patrol Retirement System:

In accordance with the policies set by the Board of Trustees, the Missouri Highway and Transportation Employees' and Highway Patrol Retirement System (the System), lends its securities to broker-dealers and banks pursuant to a form of loan agreement. The System's custodial bank is authorized to lend available securities to approved broker-dealers and banks subject to the receipt of acceptable collateral.

During the fiscal year, the System lent securities and received cash, securities insured or guaranteed by the U.S. government or its agencies, and irrevocable bank letters of credit as collateral. The System did not have the ability to pledge or sell collateral securities absent a borrower default. Borrowers were required to deliver collateral for each loan equal to: (1) in the case of loaned securities denominated in dollars or whose primary trading market was located in the United States, 102% of the market value of the loaned securities; and (2) in the case of loaned securities not denominated in U.S. dollars or whose primary trading market was not located in the United States, 105% of the market value of the loaned securities.

The System did not impose any restrictions during the fiscal year on the amount of the loans that the custodial bank made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the year.

The System and borrowers maintained the right to terminate all securities lending transactions on demand. The collateral held and the market value of securities on loan for the System were unavailable as of the System's report date.

At June 30, 2002 and 2001, the System earned \$98,402 and \$80,671, respectively, on the securities lending program.

University of Missouri System:

The University participates in a securities lending program to augment income. The program is administered by the University's custodial agent bank, which lends certain securities for a predetermined period of time, to an independent broker/dealer (borrower) in exchange for collateral. Collateral may be cash, U.S. government securities, defined letters of credit or other collateral approved by the University. Loans of domestic securities are initially collateralized at 102% of the fair value of securities lent. Loans of international securities are initially collateralized at 105% of the fair value of securities lent. The University has minimized its exposure to credit risk from borrower default by having the custodial agent bank determine daily that required collateral meets 100% of the market value of securities on loan for domestic securities lent and 105% for international securities lent. The University continues to receive interest and dividends during the loan period as well as a fee from the borrower. At June 30, 2002, the University has no credit risk exposure since the collateral held exceeds the value of the securities lent. The University is fully indemnified by its custodial bank against any losses incurred as a result of borrower default.

In addition, at June 30, 2002, letters of credit and security collateral, not meeting the criteria for inclusion on the Combined Statement of Net Assets, totaled \$4,064,000. At June 30, 2002, the aggregate fair value of the securities lent was \$206,882,000 and the aggregate fair value of the collateral received was \$215,803,000.

Note 4 – Federal Surplus Commodities Inventory

The federal surplus commodities inventory for the Department of Social Services and the Department of Health and Senior Services were \$226,999 and \$2,176,906, respectively, as of June 30, 2002. This inventory is not considered to be an asset of the State and is not included in the financial statements.

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2002

Note 5 – Capital Assets

Capital asset activity for the year ended June 30, 2002, was as follows (in thousands of dollars):

	Balance July 1, 2001	Increases	Decreases	Adjustments and Reclassifications	Balance June 30, 2002
Governmental Activities:					
Capital Assets not being Depreciated:					
Construction in Progress	\$ 584,475	\$ 339,856	\$ (35,931)	\$ (251,209)	\$ 637,191
Infrastructure in Progress	1,772,460	1,029,063	(514,370)	---	2,287,153
Land.....	2,267,731	33,543	(708)	(42,418)	2,258,148
Total Capital Assets not being Depreciated	4,624,666	1,402,462	(551,009)	(293,627)	5,182,492
Capital Assets being Depreciated:					
Land Improvements.....	72,232	9,832	(12,624)	6,891	76,331
Buildings and Improvements	1,643,800	282,741	(5,689)	(76,304)	1,844,548
Equipment	996,434	555,825	(192,064)	(224,301)	1,135,894
Infrastructure	35,522,736	527,244	(3,750)	---	36,046,230
Total Capital Assets being Depreciated.....	38,235,202	1,375,642	(214,127)	(293,714)	39,103,003
Less Accumulated Depreciation for:					
Land Improvements.....	39,059	3,502	(1,439)	19	41,141
Buildings and Improvements	636,631	60,683	(152,126)	111,659	656,847
Equipment	677,283	106,278	(58,734)	(3,586)	721,241
Infrastructure	15,222,025	954,211	(3,750)	---	16,172,486
Total Accumulated Depreciation.....	16,574,998	1,124,674	(216,049)	108,092	17,591,715
Total Capital Assets being Depreciated, Net	21,660,204	250,968	1,922	(401,806)	21,511,288
Governmental Activities Capital Assets, Net	<u>\$ 26,284,870</u>	<u>\$ 1,653,430</u>	<u>\$ (549,087)</u>	<u>\$ (695,433)</u>	<u>\$ 26,693,780</u>
Business-Type Activities:					
Capital Assets not being Depreciated:					
Construction in Progress	\$ ---	\$ 2,817	\$ ---	\$ ---	\$ 2,817
Land.....	18,073	315	---	(8,290)	10,098
Total Capital Assets not being Depreciated	18,073	3,132	---	(8,290)	12,915
Capital Assets being Depreciated:					
Land Improvements.....	5,941	---	---	(2,826)	3,115
Buildings and Improvements	240,104	4,292	---	(228,314)	16,082
Equipment	41,982	37,023	(4,280)	(33,324)	41,401
Total Capital Assets being Depreciated.....	288,027	41,315	(4,280)	(264,464)	60,598
Less Accumulated Depreciation for:					
Land Improvements.....	4,119	95	---	(1,794)	2,420
Buildings and Improvements	111,107	564	---	(104,943)	6,728
Equipment	27,653	4,805	(2,229)	(987)	29,242
Total Accumulated Depreciation.....	142,879	5,464	(2,229)	(107,724)	38,390
Total Capital Assets being Depreciated, Net	145,148	35,851	(2,051)	(156,740)	22,208
Business-Type Activities Capital Assets, Net	<u>\$ 163,221</u>	<u>\$ 38,983</u>	<u>\$ (2,051)</u>	<u>\$ (165,030)</u>	<u>\$ 35,123</u>

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2002

Note 5 – Capital Assets (cont.)

Depreciation expense of governmental activities was charged to functions as follows (in thousands of dollars):

General Government.....	\$ 17,683
Education	4,423
Natural and Economic Resources.....	27,773
Transportation and Law Enforcement	1,005,922
Human Services	68,873
Total	<u>\$ 1,124,674</u>

Discretely Presented Component Units

The following table summarizes net capital assets reported by the discretely presented component units (in thousands of dollars):

	College and Universities	Non-Major Component Units	Total
Capital Assets not being Depreciated:			
Construction in Progress.....	\$ 220,252	\$ 14,123	\$ 234,375
Land	108,330	4,705	113,035
Other Non-Depreciable Assets.....	9,408	---	9,408
Total Capital Assets not being Depreciated	<u>337,990</u>	<u>18,828</u>	<u>356,818</u>
Capital Assets being Depreciated:			
Land Improvements	12,813	---	12,813
Buildings and Improvements.....	2,524,288	2,400	2,526,688
Equipment, Fixtures, and Books.....	886,844	133	886,977
Infrastructure.....	228,034	---	228,034
Total Capital Assets being Depreciated	<u>3,651,979</u>	<u>2,533</u>	<u>3,654,512</u>
Less Total Accumulated Depreciation	<u>(1,439,791)</u>	<u>(863)</u>	<u>(1,440,654)</u>
Total Capital Assets being Depreciated, Net	<u>2,212,188</u>	<u>1,670</u>	<u>2,213,858</u>
Discretely Presented Component Units – Capital Assets, Net.....	<u>\$ 2,550,178</u>	<u>\$ 20,498</u>	<u>\$ 2,570,676</u>

Note 6 – Capital Leases

The State has entered into various agreements to lease land, buildings and equipment. FASB Statement No. 13, *Accounting For Leases*, requires a lease that transfers substantially all of the benefits and risks of ownership to the lessee to be accounted for as the acquisition of a fixed asset and the incurrence of an obligation by the lessee (a capital lease).

Capital leases for the Enterprise, Internal Service and College and University Funds are reported as a long-term obligation in those funds along with the related assets. Capital leases and the related assets are not reported on the fund financial statements of Governmental type funds. However, the capital leases and related assets of Governmental funds are included on the government wide financial statements and they are shown on the reconciliation between fund financial statements and government wide statements.

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2002

Note 6 – Capital Leases (cont.)

Following is a summary of the future minimum lease payments for capital leases (in thousands of dollars):

<u>Fiscal Year Ending June 30</u>	<u>Governmental Funds</u>	<u>Enterprise Funds</u>	<u>Internal Service Funds</u>	<u>College and University</u>
2003	\$ 33,309	\$ 4	\$ 2,370	\$ 3,535
2004	32,454	4	1,523	3,227
2005	31,654	4	831	3,094
2006	30,872	4	581	1,654
2007	22,271	4	291	1,218
2008–2012	97,682	20	568	6,075
2013–2017	70,178	8	335	6,075
2018–2022	16,804	---	---	2,734
Total minimum lease payments	335,224	48	6,499	27,612
Less amount representing interest	105,550	20	780	10,555
Present value of net minimum lease payments	<u>\$ 229,674</u>	<u>\$ 28</u>	<u>\$ 5,719</u>	<u>\$ 17,057</u>

Assets acquired through these capital lease agreements are recorded as fixed assets at the lower of the present value of the minimum lease payments or the fair value at the time of acquisition. The following is an analysis of the property under capital lease by asset category as of June 30, 2002 (in thousands of dollars):

	<u>Governmental Funds</u>	<u>Enterprise Funds</u>	<u>Internal Service Funds</u>	<u>College and University</u>
Land	\$ ---	\$ ---	\$ ---	\$ 153
Buildings	236,501	31	997	19,741
Equipment	49,776	---	8,971	3,583
Total Fixed Assets	<u>\$ 286,277</u>	<u>\$ 31</u>	<u>\$ 9,968</u>	<u>\$ 23,477</u>

Note 7 – Retirement Systems

The State has two major retirement systems which cover substantially all State employees. These systems are Missouri State Employees' Retirement System (MOSERS) and Highway and Transportation Employees' and Highway Patrol Retirement System (HEHPRS). The University of Missouri Retirement Plan is included in the college and university component unit. The Public School Retirement System is included in this note disclosure as the State contributes to it. The Missouri State Employees' Deferred Compensation Incentive Plan is a defined contribution pension plan, to which the State also contributes.

Plan Descriptions

The Missouri State Employees' Plan (MSEP), Administrative Law Judges and Legal Advisors Plan (ALJLAP) and the Judicial Plan are single-employer defined benefit public employees' retirement plans administered by MOSERS. The Plans are administered in accordance with the Revised Statutes of Missouri Sections 104.010 and 104.312–104.1215, 287.812–287.856 and 476.445–476.690, respectively.

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2002

Note 7 – Retirement Systems (cont.)

The MSEP has two benefit structures known as MSEP (closed plan) and MSEP 2000 (new plan). The MSEP covers all full-time employees hired before July 1, 2000, who are not covered under another state-sponsored retirement plan. MSEP 2000 covers all full-time employees hired on or after July 1, 2000. Members in the closed plan have the option at retirement to choose between the benefit structure of the closed plan or new plan. Retirement benefits for members of the ALJLAP and Judicial Plan are administered and paid by MOSERS. Amounts paid for the Judicial Plan are reimbursed monthly from appropriations of State funds. Prefunding of judicial benefits began in fiscal year 1999. The four plans are included in this disclosure.

MOSERS provides retirement, death and disability benefits to its members. MOSERS employees are fully vested after 5 years of creditable service (4 years for elected officials and 6 years for legislators). The retirement eligibility requirements are as follows:

MSEP

Age 65 and active with 4 years of service
Age 65 with 5 years of service
Age 60 with 15 years of service
Age 50 with age and service equaling 80
or more (Rule of 80)
Employees may retire early at age 55 with at
least 10 years of service with reduced benefits.

ALJLAP

Age 62 with 12 years of service
Age 60 with 15 years of service
Age 55 with 20 years of service
Employees may retire early at age 65 with less
than 12 years of service with a reduced
benefit that is based upon years of
service relative to 12 years.

MSEP 2000

Age 62 with 5 years of service
Age 50 with age and service equaling 80
or more (Rule of 80)
Employees may retire early at age 57 with at
least 5 years of service with reduced benefits.

Judicial Plan

Age 62 with 12 years of service
Age 60 with 15 years of service
Age 55 with 20 years of service
Employees may retire early at age 62 with less
than 12 years of service or age 60 with less
than 15 years of service with reduced benefit
that is based upon years of service relative to
12 or 15 years.

For members hired prior to August 28, 1997, cost of living adjustments (COLA's) are provided annually based on 80% of the change in the Consumer Price Index (CPI) with a floor of 4% and a ceiling of 5%, until the cumulative amount of COLA's equal 65% of the original benefit, thereafter the 4% floor is eliminated. For members hired on or after August 28, 1997, COLA's are provided annually based on 80% of the change in the CPI up to a maximum rate of 5%. Qualified, terminated-vested members of MSEP, ALJLAP, and Judicial Plan may make a one-time election to receive the present value of benefit in a lump sum payment. To qualify, a member must have terminated with at least 5, but less than 10 years of service, be less than age 60, and have a benefit present value of less than \$10,000.

The Highway and Transportation Employees' and Highway Patrol Retirement System (HEHPRS) is a single-employer defined benefit public employees' retirement system administered in accordance with the Revised Statutes of Missouri Sections 104.010-104.270.

HEHPRS membership is composed of qualified employees of the Missouri Highways and Transportation Commission (includes employees of the Department of Transportation), and uniformed and non-uniformed members of the State Highway Patrol.

**STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2002**

Note 7 – Retirement Systems (cont.)

HEHPRS provides retirement, death and disability benefits to its members. HEHPRS employees are fully vested after 5 years of creditable service. Employees may retire at age 65 with 4 years of service; age 60 with 15 years of service; or age 50 with age and service equaling 80 or more. Employees may retire at or after age 55 and receive a reduced benefit if they have at least 10 years of service. For members hired prior to August 28, 1997, cost of living adjustments (COLA's) are provided annually based on 80% of the change in the Consumer Price Index (CPI) with a floor of 4% and a ceiling of 5%, until the cumulative amount of COLA's equal 65% of the original benefit, thereafter the 4% floor is eliminated. For members hired on or after August 28, 1997, COLA's are provided annually based on 80% of the CPI. Effective August 28, 1994, uniformed patrol members who previously served in the police force of any city will be allowed to purchase creditable service time of up to 4 years maximum.

Copies of financial reports issued by MOSERS and HEHPRS can be requested from:

Missouri State Employees' Retirement System
P.O. Box 209
907 Wildwood
Jefferson City, Missouri 65102-0209

Missouri Highway and Transportation Employees'
and Highway Patrol Retirement System
P.O. Box 1930
Jefferson City, Missouri 65102-1930

Funding Requirement

MOSERS administers plans which cover substantially all State of Missouri employees. The State of Missouri is obligated by State law to make all required contributions to the System. The actuarially determined contributions are expressed as a level percentage of covered payroll. Current year actuarially determined contribution rates for the MSEP, ALJLAP and the Judicial Plan are 11.59%, 22.32% and 55.30%, respectively. Actual contribution rates are the same as the actuarially determined rates.

The State of Missouri makes all contributions to HEHPRS. Current year calculated contribution rates are 34.94% for uniformed members of the Highway Patrol and 23.29% for non-uniformed members of the Highway Patrol and employees of the Department of Transportation. Actual contribution rates are the same as the calculated rates.

Annual Pension Cost and Net Pension Obligation

The annual pension cost and net pension obligation for the current year were as follows (in thousands of dollars):

	<u>MSEP</u>	<u>ALJLAP</u>	<u>Judicial Plan</u>	<u>HEHPRS</u>
Annual required contribution	\$ 209,515	\$ 1,072	\$ 22,088	\$ 77,440
Interest on net pension obligation	4,612	8	3,178	---
Actuarial adjustment to annual required contribution	(3,230)	(5)	(2,145)	---
Annual pension cost	210,897	1,075	23,121	77,440
Contributions made	(209,515)	(1,072)	(22,088)	(77,440)
Increase in net pension obligation	1,382	3	1,033	---
Net pension obligation, beginning of year	54,256	90	37,384	---
Net pension obligation, end of year	<u>\$ 55,638</u>	<u>\$ 93</u>	<u>\$ 38,417</u>	<u>\$ ---</u>

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2002

Note 7 – Retirement Systems (cont.)

The annual required contribution for MOSERS for the current year was determined as part of an actuarial valuation of the Systems as of June 30, 2000, using the entry age normal actuarial cost method. Significant actuarial assumptions used in the valuation for MOSERS include (a) rate of return on the investment of present and future assets of 8.5% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0% to 2.7% per year, depending on age, attributable to seniority and/or merit and (d) the assumption that benefits will increase 4.5% per year after retirement.

The actuarial valuation of the System dated June 30, 2002, will set the required contribution rates for the fiscal year ending June 30, 2004. The actuarial value of assets was determined using a 3-year moving average market value method. The unfunded actuarial accrued liabilities are amortized on a closed basis as a level percentage of payroll over 33 years.

The annual required contribution for HEHPRS for the current year was determined as part of an actuarial valuation as of June 30, 2001, using the normal entry age actuarial cost method. Significant actuarial assumptions used in the valuation for HEHPRS include (a) rate of return on the investment of 8.25% and (b) projected wage inflation rate of 4.0%.

As of June 30, 2002, the actuarial valuation of assets was determined using a 5-year adjusted value average. The unfunded actuarial accrued liabilities are amortized as closed, level percentage over 34 years.

Trend Information (in thousands of dollars)

	MSEP			ALJLAP		
	Fiscal Year Ending			Fiscal Year Ending		
	<u>06/30/02</u>	<u>06/30/01</u>	<u>06/30/00</u>	<u>06/30/02</u>	<u>06/30/01</u>	<u>06/30/00</u>
Annual Pension Cost (APC)	\$ 210,897	\$ 217,459	\$ 204,053	\$ 1,075	\$ 1,078	\$ 810
Percentage of APC Contributed	99.34%	99.21%	99.16%	99.77%	99.74%	99.65%
Net Pension Obligation	\$ 55,638	\$ 54,256	\$ 52,547	\$ 93	\$ 90	\$ 87
	Judicial Plan			HEHPRS		
	Fiscal Year Ending			Fiscal Year Ending		
	<u>06/30/02</u>	<u>06/30/01</u>	<u>06/30/00</u>	<u>06/30/02</u>	<u>06/30/01</u>	<u>06/30/00</u>
Annual Pension Cost (APC)	\$ 23,121	\$ 23,651	\$ 21,175	\$ 77,440	\$ 81,155	\$ 70,051
Percentage of APC Contributed	95.53%	95.02%	94.40%	100%	100%	100%
Net Pension Obligation	\$ 38,417	\$ 37,384	\$ 36,207	\$ ---	\$ ---	\$ ---

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2002

Note 7 – Retirement Systems (cont.)

Public School Retirement System of Missouri:

The State of Missouri also made employer contributions to the Public School Retirement System of Missouri which is a cost-sharing multiple-employer defined benefit public employees' retirement system. The System includes all public school districts within the State except for the two districts covering the major metropolitan areas. It also includes certain public colleges and universities and some State employees.

The benefit provisions include retirement annuities, death benefits and disability benefits. A member is vested after acquiring five years of membership credit for Missouri service.

The System was created and is governed by Chapter 169 of the Revised Statutes of Missouri. State employees who elect to remain with the Public School Retirement System under the Revised Statutes of Missouri, Section 104.342, are covered by the System.

Employees of the State are not required to contribute. The State, as employer, contributed \$3,056,577, \$3,514,745, and \$3,297,780 for the years ending June 30, 2002, 2001 and 2000, respectively, to the System, equal to the required contributions for each year.

Copies of the System's June 30, 2002, Comprehensive Annual Financial Report can be requested from:

Public School Retirement System of Missouri
P.O. Box 268
3210 West Truman Boulevard
Jefferson City, Missouri 65109

Missouri State Employees' Deferred Compensation Incentive Plan:

The Plan was established by the Missouri State Public Employees' Deferred Compensation Commission in July 1995 pursuant to Section 401(a) of the Internal Revenue Code. It is administered by the Public Employees Benefit Services Corporation (PEBSCO).

Under the Plan provisions, any employee of the State is eligible to participate in the Plan if he/she has been an employee of the State for at least 12 consecutive months immediately preceding any employer contributions to the Plan, and is making continuous monthly deferrals of at least \$25 to the Missouri State Public Employees' Deferred Compensation Plan. The State, subject to appropriation, contributes \$25 per month for each employee that meets these requirements. Employees at all times shall be 100% vested.

The first employer contributions to the Plan were made in January 1996. During fiscal year 2002, employer contributions were \$18,959,411. No employee contributions are made to the Plan.

Copies of the Plan's financial statements can be requested from:

PEBSCO – A Division of Nationwide
Retirement Solutions, Inc.
One Nationwide Plaza, 1-13-G1
Columbus, Ohio 43215-2220

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2002

Note 7 – Retirement Systems (cont.)

College and University:

University of Missouri Retirement System

Plan Description

The University of Missouri Retirement, Disability and Death Benefit Plan is a single employer, defined benefit Plan for all qualified employees. The University's Board of Curators establishes the terms of the Plan, and the University, as authorized by State statute, administers it.

All full-time employees are eligible for benefits after five years of credited service. Full benefits are available to members who retire at age 65 or after. Early retirement may be taken, at member's option, after age 55 with at least ten years of credited service, or age 60 with five years of credited service. Benefits are reduced for those who retire early, unless they retire at age 62 or later with at least 25 years of credited service. At retirement, up to 30% of the value of the retirement annuity can be taken in a lump sum; also the single life annuity can be exchanged for an actuarially annuity option.

Separate financial statements and supplemental schedules are not prepared for the Plan.

Detailed information concerning the Plan is presented in the University's 2002 Financial Report, which is publicly available. Copies of this report can be requested from:

University of Missouri System
Office of the Controller
118 University Hall
Columbia, Missouri 65211

Funding Requirement

The University's contributions to the Plan are equal to the actuarially determined contribution requirement, as a percent of payroll, which averaged 3.6% for the year ended June 30, 2002. The Plan is funded 100% by University contributions and does not require employee contributions. The contribution rate is updated annually at the beginning of the University's fiscal year on July 1 to reflect the actuarially determined funding requirement from the most recent valuation, as of the preceding October 1, and the adoption of any Plan amendments during the interim.

Annual Pension Cost and Net Pension Obligation

The annual pension cost and net pension obligation for the current year were as follows (in thousands of dollars):

Annual required contribution	\$ 25,319
Interest on net pension obligation	---
Adjustment to annual required contribution	---
Annual pension cost	25,319
Contributions made	(25,319)
Change in net pension obligation	---
Net pension obligation, beginning of year	---
Net pension obligation, end of year	\$ ---

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2002

Note 7 – Retirement Systems (cont.)

The annual required contribution for the University for the current year was determined as part of an actuarial valuation of the System as of October 1, 2000, using the entry age normal actuarial cost method and adjusted for the Plan amendments effective September 1, 2001. Significant actuarial assumptions used in the valuation include (a) assumed rate of return on investments of 8.0% per year, (b) projected salary increases for academic and administrative employees averaging 5.2% per year, (c) projected salary increases for clerical and service employees averaging 4.5% per year and, (d) assumed no future retiree ad-hoc increases or cost of living adjustments.

Trend Information (in thousands of dollars)

	<u>Fiscal Year Ending</u>		
	<u>06/30/02</u>	<u>06/30/01</u>	<u>06/30/00</u>
Annual Pension Cost (APC)	\$ 25,319	\$ 29,272	\$ 37,036
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	\$ ---	\$ ---	\$ ---

Note 8 – Other Postemployment Benefits

In addition to the retirement benefits described in *Note 7*, the State provides postemployment health care and life insurance benefits, in accordance with State statutes, to the majority of employees who retire from the State and employees receiving long-term disability benefits. These benefits are administered by the Missouri Consolidated Health Care Plan (MCHCP), the Missouri State Employees' Retirement System (MOSERS), the Highway and Transportation Employees' and Highway Patrol Insurance Plan (HEHPIP), and the Conservation Employees' Insurance Plan (CEIP). The eligible number of retirees/long-term disability claimants for MCHCP, HEHPIP, and CEIP for health care benefits are approximately 11,065, 3,759, and 418, respectively. The eligible number of retirees/long-term disability claimants for MOSERS, HEHPIP, and CEIP for life insurance benefits are 11,429, 2,905, and 344, respectively. Health care benefits are funded through both employer and employee contributions. MOSERS life insurance benefits are funded through employer and employee contributions. HEHPIP and CEIP life insurance benefits are funded through employee contributions. Employer contribution rates are set in accordance with Section 103.100 of the Revised Statutes of Missouri. Retiree contribution rates are established based on projected claims experience and funding provided by employer contributions. Insurance policies are purchased for life insurance benefits and are the liability of the insurance carrier. For fiscal year 2002 the State's contributions were 49.23% of the total (employer/employee) contributions made for other postemployment benefits.

Currently, the number of retirees/long-term disability claimants participating are as follows:

	<u>Health Care</u>	<u>Life Insurance</u>
MCHCP	11,065	---
MOSERS	---	11,429
HEHPIP	3,759	2,905
CEIP	418	344
Total	<u>15,242</u>	<u>14,678</u>

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2002

Note 8 – Other Postemployment Benefits (cont.)

During fiscal year 2002 the State contributed the following amounts:

	<u>Health Care</u>	<u>Life Insurance</u>
MCHCP	\$ 25,792,465	\$ ---
MOSERS	---	1,352,463
HEHPIP	6,719,723	---
CEIP	<u>720,000</u>	<u>---</u>
Total	<u>\$ 33,232,188</u>	<u>\$ 1,352,463</u>

During fiscal year 2002 the expenditures recognized by the State for (employer/employee) other postemployment benefits were as follows:

	<u>Health Care</u>	<u>Life Insurance</u>
MCHCP	\$ 48,088,445	\$ ---
MOSERS	---	---
HEHPIP	17,299,752	1,596,000
CEIP	<u>1,572,000</u>	<u>144,000</u>
Total	<u>\$ 66,960,197</u>	<u>\$ 1,740,000</u>

College and University Funds:

University of Missouri

In addition to the retirement benefits described in *Note 7*, the University provides postemployment medical care, dental care and life insurance benefits to eligible employees who retire from the University and to employees receiving long-term disability benefits. Currently, 4,965 retirees/long-term disability claimants meet the eligibility requirements. These postemployment benefits are funded through both employer and employee contributions. For fiscal year 2002 the University's contributions were 54.34% of the total (employer/employee) contributions made for other postemployment benefits.

Currently, the numbers of retirees/long-term disability claimants participating are 4,595 for medical care, 3,959 for dental care, 2,397 for life insurance, and 3,488 for Accidental Death and Dismemberment, Dependent Life and Long-Term Care. During fiscal year 2002, the University contributed \$11,798,000 for other postemployment benefits. During fiscal year 2002, the expenditures recognized by the University for (employer/employee) other postemployment benefits were \$23,531,227.

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2002

Note 9 – Missouri State Public Employees' Deferred Compensation Plan

In accordance with Internal Revenue Code Section 457, the State offers all employees the opportunity to participate in the Missouri State Public Employees' Deferred Compensation Plan. Under the Plan, employees are permitted to defer a portion of their current salary until future years.

All amounts of compensation deferred under the Plan must be held in a trust, custodial account or annuity contract for the exclusive benefit of plan participants and their beneficiaries. Investments are managed by the Plan's trustee under one of several investment options, or a combination thereof. The choice of investment option(s) is made by the participants.

Copies of the Plan's financial statements can be requested from:

PEBSCO – A Division of Nationwide
Retirement Solutions, Inc.
One Nationwide Plaza, 1-13-G1
Columbus, Ohio 43215-2220

Note 10 – Changes in Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2002 (in thousands of dollars):

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002	Due Within One Year
Governmental Activities:					
Due to Other Entities	\$ 20,726	\$ 5,025	\$ (5,600)	\$ 20,151	\$ 263
General Obligation Bonds Payable	978,950	---	(55,155)	923,795	58,085
Other Bonds Payable	633,390	521,465	(100,440)	1,054,415	30,885
Obligations Under Lease/Purchases	212,859	51,205	(28,671)	235,393	22,751
Compensated Absences	161,767	130,202	(134,997)	156,972	134,997
Claims/Judgements	82,198	228,770	(30,675)	280,293	30,675
Total Governmental Activities	<u>\$ 2,089,890</u>	<u>\$ 936,667</u>	<u>\$ (355,538)</u>	<u>\$ 2,671,019</u>	<u>\$ 277,656</u>
			Premium	11,891	
				<u>\$ 2,682,910</u>	
Business-Type Activities:					
Grand Prize Winner Liability	\$ 81,183	\$ 9,263	\$ (9,922)	\$ 80,524	\$ 10,198
Obligations Under Lease/Purchases	29	---	(1)	28	1
Compensated Absences	2,174	1,319	(1,615)	1,878	1,615
Total Business-Type Activities	<u>\$ 83,386</u>	<u>\$ 10,582</u>	<u>\$ (11,538)</u>	<u>\$ 82,430</u>	<u>\$ 11,814</u>

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2002

Note 11 – Bonds Payable

Long-Term Liabilities – Prior to GASB 34, the following bonds were included in the General Long-Term Debt Account Group. The General Long-Term Debt Account Group was eliminated under GASB 34, which was implemented for the fiscal year ending June 30, 2002. These bonds are currently classified as long-term liabilities and are reconciling items from fund financial statements to government-wide financial statements. On the Government-Wide Statement of Net Assets, the long-term liabilities are shown as the amounts due within one year from the date of the statement and the amounts due in more than one year from the date of the statement. These bonds are included as long-term liabilities because the principal and interest payments required for retirement of the bonds are made from governmental funds.

General Obligation Bonds:

The Board of Fund Commissioner's of the State of Missouri, upon voter approval and subsequent authorization of the General Assembly, issues general obligation bonds that are secured by a pledge of the full faith, credit and resources of the State. The principal and interest amounts are transferred one year in advance from the General Fund to the Debt Service Funds from which principal and interest payments are made. Four types of general obligation bonds are currently outstanding. The Water Pollution Control Bonds are used to provide funds for the protection of the environment through the control of water pollution. The total amount authorized for issue is \$725,000,000. Proceeds from the \$600,000,000 Third State Building Bonds were used to provide funds for improvements of State buildings and property. Proceeds from the \$250,000,000 Fourth State Building Bonds are used to provide funds for improvements of buildings and property of higher education institutions, Department of Corrections, and the Division of Youth Services. Proceeds from the Stormwater Control Bonds will be used to provide funds to protect the environment through the control of stormwater. The total amount authorized for issue is \$200,000,000.

To take advantage of lower interest rates, the Board of Fund Commissioners has issued bonds to refund various outstanding bond issues. The following indicates the refunding bonds issued by the Board (in thousands of dollars):

	<u>Date Issued</u>	<u>Amount Issued</u>	<u>Series Refunded</u>	<u>Amount Refunded</u>
Water Pollution Control Bonds:				
Series A 1987 Refunding	8/1/87	\$ 49,715	A 1981	\$ 16,940
			B 1983	9,625
			A 1985	19,575
Series B 1991 Refunding	11/1/91	17,435	A 1983	16,415
Series C 1991 Refunding	11/1/91	33,575	B 1987	30,695
Series B 1992 Refunding	8/15/92	50,435	A 1986	46,400
Series B 1993 Refunding	8/1/93	109,415	A 1987 Refunding	33,240
			A 1989	27,280
			A 1991	27,350
			B 1991 Refunding	11,355
Third State Building Bonds:				
Series A 1987 Refunding	8/1/87	170,115	B 1983	33,675
			A 1984	48,130
			A 1985	73,375
Series A 1991 Refunding	11/1/91	34,870	A 1983	32,835
Series B 1991 Refunding	11/1/91	71,955	B 1987	65,780
Series A 1992 Refunding	8/15/92	273,205	A 1986	251,355
Series A 1993 Refunding	8/1/93	148,480	A 1987 Refunding	113,725
			A 1991 Refunding	22,935

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2002

Note 11 – Bonds Payable (cont.)

The additional principal amount of the refunding bonds does not decrease the amount of the authorization.

As of June 30, 2002, \$514,494,240 of the Water Pollution Control Bonds; \$600,000,000 of the Third State Building Bonds; \$250,000,000 of the Fourth State Building Bonds; and \$30,000,000 of the Stormwater Control Bonds have been issued. The remaining authorization for the Water Pollution Control Bonds is \$210,505,760 and Stormwater Control Bonds is \$170,000,000. There is no remaining authorization for the Third State Building Bonds and the Fourth State Buildings Bonds.

General obligation bonds issued and outstanding as of June 30, 2002, were as follows (in thousands of dollars):

	Interest Rates	Payment Dates	Issue Date	Final Maturity Date	Issued	Outstanding
Water Pollution Control Bonds:						
Series C 1991 – Refunding	5.25 – 7.75%	5/1; 11/1	11/91	11/1/12	\$ 33,575	\$ 21,875
Series A 1992	5.0 – 7.5%	2/1; 8/1	8/92	8/1/17	35,000	27,630
Series B 1992 – Refunding	5.0 – 7.5%	2/1; 8/1	8/92	8/1/10	50,435	36,605
Series A 1993	4.3 – 7.3%	2/1; 8/1	8/93	8/1/18	30,000	24,195
Series B 1993 – Refunding	4.3 – 7.3%	2/1; 8/1	8/93	8/1/16	109,415	90,205
Series A 1995	5.125 – 8.0%	4/1; 10/1	4/95	4/1/20	30,000	25,230
Series A 1996	5.2 – 6.25%	2/1; 8/1	8/96	8/1/21	35,000	30,945
Series A 1998	4.25 – 6.25%	12/1; 6/1	6/98	6/1/23	35,000	31,595
Series A 1999	4.5 – 7.5%	10/1; 4/1	10/99	10/1/24	20,000	19,095
Series A 2001	4.0 – 7.0%	12/1; 6/1	6/01	6/1/26	20,000	19,530
Third State Building Bonds:						
Series B 1991 – Refunding	5.25 – 7.75%	5/1; 11/1	11/91	11/1/12	71,955	47,320
Series A 1992 – Refunding	5.0 – 7.5%	2/1; 8/1	8/92	8/1/10	273,205	198,970
Series A 1993 – Refunding	4.3 – 7.3%	2/1; 8/1	8/93	8/1/12	148,480	103,015
Fourth State Building Bonds:						
Series A 1995	5.125 – 8.0%	4/1; 10/1	4/95	4/1/20	75,000	63,070
Series A 1996	5.2 – 6.25%	2/1; 8/1	8/96	8/1/21	125,000	110,515
Series A 1998	4.25 – 6.25%	12/1; 6/1	6/98	6/1/23	50,000	45,140
Stormwater Control Bonds:						
Series A 1999	4.5 – 7.5%	10/1; 4/1	10/99	10/1/24	20,000	19,095
Series A 2001	4.0 – 7.0%	12/1; 6/1	6/01	6/1/26	10,000	9,765
Total General Obligation Bonds					<u>\$ 1,172,065</u>	<u>\$ 923,795</u>

As of June 30, 2002, general obligation debt service requirements for principal and interest in future years were as follows (in thousands of dollars):

Fiscal Year Ended June 30	Principal	Interest	Totals
2003	\$ 58,085	\$ 47,596	\$ 105,681
2004	60,965	44,525	105,490
2005	64,500	41,232	105,732
2006	67,725	37,733	105,458
2007–2011	351,250	132,436	483,686
2012–2016	150,360	66,691	217,051
2017–2021	129,535	28,800	158,335
2022–2026	41,375	3,686	45,061
Totals	<u>\$ 923,795</u>	<u>\$ 402,699</u>	<u>\$ 1,326,494</u>

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2002

Note 11 – Bonds Payable (cont.)

Other Bonds:

The Board of Public Buildings of the State of Missouri, upon the approval of the General Assembly, issues revenue bonds for building projects and commits State agencies to lease space in these buildings. The General Assembly appropriates to the Board, on behalf of the State agencies, amounts sufficient to pay the principal and interest on the bonds, maintain certain required reserves and to pay the costs of operations.

The total amount authorized for the Board equals \$425,000,000. As of November 1985, seven bond series equaling \$161,155,000 had been issued. In December 1985, the Board issued \$150,560,000 principal amount of State Building Special Obligation Refunding Bonds, Series A 1985 for the purpose of refunding all of the then outstanding Board of Public Buildings Bond issues. The outstanding principal amounts at the time of refunding were \$150,560,000. During 1988, four series of bonds equaling \$28,755,000 were issued. In December 1991, the Board issued \$148,500,000 principal amount of State Building Special Obligation Refunding Bonds, Series A 1991, for the purpose of refunding four of the five outstanding Board of Public Buildings Bond issues. The outstanding principal amount refunded was \$131,560,000. In May 2001, the Board issued \$173,870,000 principal amount of State Building Special Obligation Bonds, Series A 2001. In September 2001, the Board issued \$83,465,000 principal amount of State Building Special Obligation Refunding Bonds, Series B 2001, for the purpose of refunding \$86,810,000 of outstanding State Building Special Obligation Refunding Bonds, Series A 1991. As of June 30, 2002, the Board of Public Buildings Bonds had used \$363,780,000 of the bond authorization.

The Board of Public Buildings Bonds issued and outstanding as of June 30, 2002, were as follows (in thousands of dollars):

	Interest Rates	Payment Dates	Issue Date	Final Maturity Date	Issued	Outstanding
Board of Public Buildings:						
Series A 2001	4.25 – 5.5%	5/1; 11/1	5/01	5/1/26	\$ 173,870	\$ 170,100
Series B 2001 – Refunding	3.5 – 5.5%	6/1; 12/1	10/01	12/1/12	83,465	83,465
Total Board of Public Buildings Bonds					<u>\$ 257,335</u>	<u>\$ 253,565</u>

As of June 30, 2002, the debt service requirements for principal and interest in future years for the Board of Public Buildings Bonds were as follows (in thousands of dollars):

Fiscal Year Ended June 30	Principal	Interest	Totals
2003	\$ 11,505	\$ 12,312	\$ 23,817
2004	13,005	11,766	24,771
2005	13,560	11,229	24,789
2006	14,130	10,614	24,744
2007	14,675	10,055	24,730
2008–2012	63,695	39,250	102,945
2013–2017	36,130	27,539	63,669
2018–2022	43,385	17,698	61,083
2023–2027	43,480	5,631	49,111
Totals	<u>\$ 253,565</u>	<u>\$ 146,094</u>	<u>\$ 399,659</u>

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2002

Note 11 – Bonds Payable (cont.)

The Health and Educational Facilities Authority issued \$35,000,000 of Educational Facilities Revenue Bonds (University of Missouri–Columbia Arena Project), Series 2001, dated November 1, 2001. These bonds are limited obligations of the Authority and do not constitute a pledge of the full faith and credit of the State. However, under a financing agreement dated November 1, 2001, the Office of Administration will request that the Governor’s annual budget request to the General Assembly include the State’s financing amount for principal and interest each year. The bonds are included as Long-Term Liabilities since they will be repaid with moneys from the General Fund.

The Educational Facilities Revenue Bonds issued and outstanding as of June 30, 2002 were as follows (in thousands of dollars):

	<u>Interest Rates</u>	<u>Payment Dates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Issued</u>	<u>Outstanding</u>
Educational Facilities Revenue Bonds:						
Series 2001	3.0 – 5.0%	5/1; 11/1	11/01	11/1/21	<u>\$ 35,000</u>	<u>\$ 35,000</u>

As of June 30, 2002, the debt service requirement of the State for principal and interest in future years for the Educational Facilities Revenue Bonds (based on the financing agreement between the State and the Authority) were as follows (in thousands of dollars):

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2003	\$ ---	\$ 1,554	\$ 1,554
2004	---	1,554	1,554
2005	1,335	1,534	2,869
2006	1,380	1,493	2,873
2007	1,430	1,450	2,880
2008–2012	8,085	6,342	14,427
2013–2017	10,040	4,310	14,350
2018–2022	<u>12,730</u>	<u>1,600</u>	<u>14,330</u>
Totals	<u>\$ 35,000</u>	<u>\$ 19,837</u>	<u>\$ 54,837</u>

The Regional Convention and Sports Complex Authority issued \$132,910,000 of Convention and Sports Facility Project Bonds, Series A 1991, dated August 15, 1991. On December 15, 1993, the Authority issued \$121,705,000 of Convention and Sports Facility Project Refunding Bonds, Series A 1993, for the purpose of refunding the callable portions of the outstanding bonds issued in August 1991 and to pay the costs of additions and enhancements to the project. The outstanding principal amount refunded was \$101,410,000. These bonds are limited obligations of the Authority and do not constitute a pledge of the full faith and credit of the State. However, under a financing agreement dated August 1, 1991, the Office of Administration will request that the Governor’s annual budget request to the General Assembly include the State’s financing amount of \$10,000,000 for principal and interest and \$2,000,000 for maintenance each year. The bonds are included as Long-Term Liabilities since they will be repaid with moneys from the General Fund.

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2002

Note 11 – Bonds Payable (cont.)

The Convention and Sports Facility Project Bonds issued and outstanding as of June 30, 2002 were as follows (in thousands of dollars):

	<u>Interest Rates</u>	<u>Payment Dates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Issued</u>	<u>Outstanding</u>
Convention and Sports Facility Project Bonds:						
Series A 1991	4.9 – 6.9%	2/15; 8/15	8/91	8/15/03	\$ 132,910	\$ 5,515
Series A 1993 – Refunding	2.75 – 5.6%	2/15; 8/15	12/93	8/15/21	<u>121,705</u>	<u>113,945</u>
Total Convention and Sports Facility Project Bonds					<u>\$ 254,615</u>	<u>\$ 119,460</u>

As of June 30, 2002, the debt service requirement of the State for principal and interest in future years for the Convention and Sports Facility Project Bonds (based on the financing agreement between the State and the Authority) were as follows (in thousands of dollars):

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2003	\$ 3,445	\$ 6,555	\$ 10,000
2004	3,655	6,345	10,000
2005	3,880	6,120	10,000
2006	4,065	5,935	10,000
2007	4,265	5,735	10,000
2008–2012	24,930	25,070	50,000
2013–2017	32,550	17,450	50,000
2018–2022	<u>42,670</u>	<u>2,330</u>	<u>45,000</u>
Totals	<u>\$ 119,460</u>	<u>\$ 75,540</u>	<u>\$ 195,000</u>

The Missouri Highways and Transportation Commission authorized by Section 226.133 of the State Highway Act, issues bonds for highway construction and repairs. Under the Missouri Constitution, the principal and interest of the State Road Bonds are payable solely from the revenues of the State Road Fund.

The total amount authorized for the Commission equals \$2,250,000,000. On December 1, 2000, the Commission issued \$250,000,000 principal amount of State Road Bonds, Series A 2000. In October 2001, the Commission issued \$200,000,000 principal amount of State Road Bonds, Series A 2001. State Road Bonds, Series A 2002, were issued by the Commission in June 2002 with principal amount of \$203,000,000. As of June 2002, the Missouri Highways and Transportation Commission had used \$653,000,000 of the bond authorization.

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2002

Note 11 – Bonds Payable (cont.)

The State Road Bonds issued and outstanding as of June 30, 2002, were as follows (in thousands of dollars):

	<u>Interest Rates</u>	<u>Payment Dates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Issued</u>	<u>Outstanding</u>
Missouri Highways and Transportation Commission:						
State Road Bonds						
Series A 2000	4.30–5.625%	2/1; 8/1	12/00	2/1/20	\$ 250,000	\$ 243,390
Series A 2001	2.25–5.125%	2/1; 8/1	10/01	2/1/21	200,000	200,000
Series A 2002	3.00–5.25%	2/1; 8/1	6/02	2/1/22	<u>203,000</u>	<u>203,000</u>
Total Missouri Highways and Transportation Commission					<u>\$ 653,000</u>	<u>\$ 646,390</u>

As of June 30, 2002 debt service requirements for principal and interest in future years for the Missouri Highways and Transportation Commission State Road Bonds were as follows (in thousands of dollars):

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2003	\$ 15,935	\$ 28,041	\$ 43,976
2004	23,455	31,086	54,541
2005	24,375	30,126	54,501
2006	25,340	29,154	54,494
2007	26,400	28,107	54,507
2008–2012	150,765	121,008	271,773
2013–2017	192,355	79,519	271,874
2018–2021	<u>187,765</u>	<u>25,048</u>	<u>212,813</u>
Totals	<u>\$ 646,390</u>	<u>\$ 372,089</u>	<u>\$ 1,018,479</u>

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2002

Note 11 – Bonds Payable (cont.)

Component Units' Long-Term Debt – The following bonds are included in the balance sheet of the College and University Funds and the Non-Major Component Units.

Major

College and University Funds:

The colleges and universities of the State issue revenue bonds for various projects on each respective campus. Bonds are payable, both principal and interest, only out of net income and revenues arising from operations of facilities funded by the bonds. As of June 30, 2002, debt service requirements for principal and interest for the colleges and universities were as follows (in thousands of dollars):

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2003	\$ 21,256	\$ 34,380	\$ 55,636
2004	22,566	33,363	55,929
2005	23,533	32,350	55,883
2006	25,207	31,258	56,465
2007	25,976	30,095	56,071
2008–2012	131,841	131,743	263,584
2013–2017	139,176	98,825	238,001
2018–2022	123,681	65,294	188,975
2023–2027	118,485	35,316	153,801
2028–2033	106,330	11,478	117,808
Totals ⁽¹⁾	<u>\$ 738,051</u>	<u>\$ 504,102</u>	<u>\$ 1,242,153</u>

⁽¹⁾ The bond schedule does not include notes payable, therefore, it differs from the bonds and notes payable amount reported in the statements.

Non-Major

Development Finance Board:

The Development Finance Board issued \$39,555,000 in Facilities Revenue Bonds in December 2000 for the purpose of paying the costs of acquiring and constructing a convention center hotel and hotel garage in St. Louis. Bonds are payable, both principal and interest, only out of revenues derived from the operation of the convention center.

The Development Finance Board Revenue Bonds issued and outstanding as of June 30, 2002, were as follows (in thousands of dollars):

	<u>Interest Rates</u>	<u>Payment Dates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Issued</u>	<u>Outstanding</u>
Development Finance Board:						
Revenue Bonds						
Series 2000A	up to 6.7%	12/1	12/00	12/1/05	\$ 18,455	\$ 13,455
Series 2000B	up to 8.5%	12/1	12/00	12/1/20	6,500	6,500
Series 2000C	up to 8.5%	12/1	12/00	12/1/20	14,600	14,600
Total Development Finance Board Revenue Bonds					<u>\$ 39,555</u>	<u>\$ 34,555</u>

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2002

Note 11 – Bonds Payable (cont.)

As of June 30, 2002, the debt service requirements for principal and interest in future years for the Development Finance Board Revenue Bonds were as follows (in thousands of dollars):

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2003	\$ ---	\$ 2,937	\$ 2,937
2004	---	2,937	2,937
2005	---	2,942	2,942
2006	13,455	2,270	15,725
2007	300	1,794	2,094
2008–2012	1,500	8,590	10,090
2013–2017	2,000	7,871	9,871
2018–2021	17,300	5,605	22,905
Totals	<u>\$ 34,555</u>	<u>\$ 34,946</u>	<u>\$ 69,501</u>

Transportation Corporations:

The Fulton 54 Transportation Corporation issued \$8,705,000 of Highway Revenue Bonds Series 2000 dated September 1, 2000. These bonds are not an obligation of the Corporation and do not constitute a pledge of the full faith and credit of the State.

The Fulton 54 Transportation Corporation Highway Revenue Bonds issued and outstanding as of June 30, 2002, were as follows (in thousands of dollars):

	<u>Interest Rates</u>	<u>Payment Dates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Issued</u>	<u>Outstanding</u>
Fulton 54 Transportation Corporation:						
Highway Revenue Bonds Series 2000	4.60–5.00%	9/1	9/00	9/1/07	<u>\$ 8,705</u>	<u>\$ 8,705</u>

As of June 30, 2002, debt service requirements for principal and interest in future years for the Fulton 54 Transportation Corporation Revenue Bonds were as follows (in thousands of dollars):

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2003	\$ ---	\$ 412	\$ 412
2004	---	412	412
2005	2,165	363	2,528
2006	2,165	262	2,427
2007	2,180	158	2,338
2008	2,195	52	2,247
Totals	<u>\$ 8,705</u>	<u>\$ 1,659</u>	<u>\$ 10,364</u>

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2002

Note 11 – Bonds Payable (cont.)

Under a financing agreement dated September 1, 2000, the Missouri Highways and Transportation Commission will make payments to the Fulton 54 Transportation Corporation in the amount of \$7,695,000 to pay a portion of the principal on the bonds. The future payments to the Corporation are as follows (in thousands of dollars):

<u>Fiscal Year Ended June 30</u>	<u>Commission Payments</u>
2003	\$ ---
2004	---
2005	2,165
2006	2,165
2007	2,165
2008	<u>1,200</u>
Totals	<u>\$ 7,695</u>

The Missouri Highway 179 Transportation Corporation issued \$22,930,000 of Highway Revenue Bonds Series 1997 dated September 1, 1997. These bonds are not an obligation of the Corporation and do not constitute a pledge of the full faith and credit of the State.

The Missouri Highway 179 Transportation Corporation Highway Revenue Bonds issued and outstanding as of June 30, 2002, were as follows (in thousands of dollars):

	<u>Interest Rates</u>	<u>Payment Dates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Issued</u>	<u>Outstanding</u>
Missouri Highway 179 Transportation Corporation: Highway Revenue Bonds Series 1997	3.95 – 5.25%	3/1; 9/1	9/97	9/1/08	<u>\$ 22,930</u>	<u>\$ 17,045</u>

As of June 30, 2002, debt service requirements for principal and interest in future years for the Missouri Highway 179 Transportation Corporation Highway Revenue Bonds were as follows (in thousands of dollars):

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2003	\$ 2,130	\$ 758	\$ 2,888
2004	2,220	664	2,884
2005	2,315	563	2,878
2006	2,420	456	2,876
2007	2,530	344	2,874
2008–2009	<u>5,430</u>	<u>289</u>	<u>5,719</u>
Totals	<u>\$ 17,045</u>	<u>\$ 3,074</u>	<u>\$ 20,119</u>

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2002

Note 11 – Bonds Payable (cont.)

Under a financing agreement dated August 1, 1997, the Missouri Highways and Transportation Commission will make payments to the Highway 179 Transportation Corporation in the amount of \$24,910,000 to pay a portion of the principal and interest on the bonds. The remaining payments are as follows (in thousands of dollars):

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Commission's Total Payments</u>
2003	\$ 1,856	\$ 445	\$ 2,301
2004	1,824	546	2,370
2005	1,782	658	2,440
2006	1,755	759	2,514
2007	1,709	880	2,589
2008–2009	<u>3,322</u>	<u>2,445</u>	<u>5,767</u>
Totals	<u>\$ 12,248</u>	<u>\$ 5,733</u>	<u>\$ 17,981</u>

In April 1997, the Springfield, MO State Highway Improvement Corporation issued \$16,440,000 of Transportation Revenue Bonds, Series 1997. On August 1, 1999, the Corporation issued \$17,240,000 of Transportation Revenue Bonds, Series 1999. These bonds are not an obligation of the Corporation and do not constitute a pledge of the full faith and credit of the State.

The Springfield, MO State Highway Improvement Corporation Transportation Revenue Bonds issued and outstanding as of June 30, 2002, were as follows (in thousands of dollars):

	<u>Interest Rates</u>	<u>Payment Dates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Issued</u>	<u>Outstanding</u>
Springfield, MO State Highway Improvement Corporation: Transportation Revenue Bonds Series 1997	5.0 – 5.25%	2/1; 8/1	4/97	8/1/03	\$ 16,440	\$ 6,515
Bonds Series 1999	3.6 – 4.75%	2/1; 8/1	8/99	8/1/05	<u>17,240</u>	<u>15,170</u>
Total Springfield, MO State Highway Improvement Corporation Bonds					<u>\$ 33,680</u>	<u>\$ 21,685</u>

As of June 30, 2002, debt service requirements for principal and interest in future years for the Springfield, MO State Highway Improvement Corporation Transportation Revenue Bonds were as follows (in thousands of dollars):

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2003	\$ 7,585	\$ 851	\$ 8,436
2004	5,630	527	6,157
2005	5,000	275	5,275
2006	<u>3,470</u>	<u>78</u>	<u>3,548</u>
Totals	<u>\$ 21,685</u>	<u>\$ 1,731</u>	<u>\$ 23,416</u>

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2002

Note 11 – Bonds Payable (cont.)

Under an amended financing agreement dated August 5, 1999, the Missouri Highways and Transportation Commission will make payments to the Springfield, MO Highway Improvement Corporation in the amount of \$28,667,000 to pay a portion of the principal of the bonds. The remaining payments are as follows (in thousands of dollars):

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Commission</u> <u>Payments</u>
2003	\$ 5,000
2004	5,000
2005	5,000
2006	<u>3,667</u>
Totals	<u>\$ 18,667</u>

The Wentzville Parkway Transportation Corporation issued \$12,935,000 of Transportation Revenue Bonds, Series 2001 dated May 1, 2001. These bonds are not an obligation of the Corporation and do not constitute a pledge of the full faith and credit of the State.

The Wentzville Parkway Transportation Corporation Transportation Revenue Bonds issued and outstanding as of June 30, 2002, were as follows (in thousands of dollars):

	<u>Interest</u> <u>Rates</u>	<u>Payment</u> <u>Dates</u>	<u>Issue</u> <u>Date</u>	<u>Final</u> <u>Maturity</u> <u>Date</u>	<u>Issued</u>	<u>Outstanding</u>
Wentzville Parkway Transportation Corporation: Transportation Revenue Bonds Series 2001	3.4 – 4.9%	2/1; 8/1	5/01	8/1/10	<u>\$ 12,935</u>	<u>\$ 12,670</u>

As of June 30, 2002, debt service requirements for principal and interest in future years for the Wentzville Parkway Transportation Corporation Transportation Revenue Bonds were as follows (in thousands of dollars):

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2003	\$ 80	\$ 573	\$ 653
2004	80	570	650
2005	85	566	651
2006	100	562	662
2007	8,935	362	9,297
2008–2011	<u>3,390</u>	<u>430</u>	<u>3,820</u>
Totals	<u>\$ 12,670</u>	<u>\$ 3,063</u>	<u>\$ 15,733</u>

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2002

Note 11 – Bonds Payable (cont.)

Under a funding agreement dated April 6, 2001, the Missouri Highways and Transportation Commission will make a fixed sum payment to the Wentzville Parkway Transportation Corporation in the amount of \$8,849,000 to pay a portion of the principal of the bonds. The future payments to the Corporation are as follows (in thousands of dollars):

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Commission</u> <u>Payments</u>
2003	\$ ---
2004	---
2005	---
2006	---
2007	<u>8,849</u>
Totals	<u>\$ 8,849</u>

Bond Transactions of the State of Missouri – The following schedule is a summary of bond activity for the fiscal year ended June 30, 2002 (in thousands of dollars):

	<u>Governmental Funds</u>		<u>Component Units</u>	
	<u>General</u> <u>Obligation</u> <u>Bonds</u>	<u>Other</u> <u>Bonds</u>	<u>Revenue Bonds</u>	<u>Totals</u>
Bonds Payable at July 1, 2001	\$ 978,950	\$ 633,390	\$ ---	\$ 1,612,340
Bond Issuance	---	521,465	---	521,465
Bonds Retired	<u>(55,155)</u>	<u>(100,440)</u>	<u>---</u>	<u>(155,595)</u>
Subtotal	923,795	1,054,415	---	1,978,210
College and University ⁽¹⁾	---	---	738,051	738,051
Development Finance Board	---	---	34,555	34,555
Fulton 54 Transportation Corporation	---	---	8,705	8,705
Highway 179 Transportation Corporation	---	---	17,045	17,045
Springfield, MO State Highway Improvement	---	---	21,685	21,685
Wentzville Parkway Transportation Corporation	<u>---</u>	<u>---</u>	<u>12,670</u>	<u>12,670</u>
Bonds Payable at June 30, 2002	<u>\$ 923,795</u>	<u>\$ 1,054,415</u>	<u>\$ 832,711</u>	<u>\$ 2,810,921</u>

⁽¹⁾ Detailed information for College and University Funds are not shown.

Note 12 – Defeased Debt

A. Current Year Debt Defeasance

On September 25, 2001, the Board of Public Buildings of the State of Missouri issued \$83,465,000 of State Building Special Obligation Refunding Bonds. Proceeds to be received from the sale of the Bonds will be used to refund the Board's State Building Special Obligation Refunding Bonds, Series A 1991, pay interest on the Refunded Bonds and pay certain costs of issuance of the Bonds. At June 30, 2002, defeased bonds outstanding are \$78,835,000.

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2002

Note 12 – Defeased Debt (cont.)

On August 8, 2001, the University of Missouri issued \$44,975,000 of Series 2001 B Bonds at a rate of 5.12%. Proceeds from the issuance of the Series 2001 B Bonds will be used to advance refund and defease a portion of the University of Missouri System Facilities Revenue Bonds, Series 1997 in the amount of \$43,035,000 and to finance certain costs of issuance. In connection with the in-substance defeasance of the Series 1997 Bonds, there was a loss of \$2,320,000. The loss was deferred and included as deferred charges to be amortized over the remaining life of the original Series 1997 Bonds. The defeasance will decrease aggregate debt service payments by \$1,838,000 resulting in an economic gain (difference between the present values of the old and new debt service payments) to the University of \$1,408,000. At June 30, 2002, defeased and in-substance defeased bonds aggregating \$71,494,000 are outstanding.

On January 15, 2002, Central Missouri State University issued \$17,850,000 of bonds. The bonds bear interest at rates of 1.5% to 4.6% paid semiannually. Proceeds from the issuance of these bonds were used to refund the Student Housing System Refunding Revenue Series 1993 Bonds. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$164,769. The difference is reported as a deduction from bonds payable and is being amortized to interest expense through the year 2015. The University completed the advance refunding to reduce its total debt service payments over the next 13 years by \$73,158 and to obtain an economic gain of approximately \$606,000. On June 30, 2002, \$1,870,000 of bonds outstanding are considered defeased.

On August 30, 2001, Southeast Missouri State University issued \$30,975,000 of System Facilities Refunding and Improvement Revenue Bonds Series 2001. The Series 2001 Bonds refund \$12,855,000 of Housing System Refunding and Improvement Revenue Bonds Series 1993. Net proceeds in the amount of \$13,799,880 were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the \$12,855,000 of Series 1993 Bonds advance refunded. This portion of the Series 1993 Bonds, is considered to be defeased and the liability for these bonds has been removed from the financial statements of the University. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$647,301. This difference was reported as a reduction from revenue bonds payable and is being charged to operations through 2021 using the bonds outstanding method. At June 30, 2002, defeased bonds aggregating \$14,096,000 are outstanding. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$647,301. This difference is reported as a reduction from revenue bonds payable and is being charged to operations through 2021 using the bonds outstanding method. The University completed the advance refunding to reduce its total debt service payments over the next 20 years by \$1,174,835 and to obtain an economic gain (difference between the present values of the old debt and new debt service payments) of \$822,469.

B. Prior Year Debt Defeasances

In prior years, various bond issues were defeased by creating separate irrevocable trust funds.

Either new debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds or sufficient funds have been deposited in an irrevocable escrow to pay principal and interest as they become due.

For financial reporting purposes, the following debt has been defeased and therefore removed as a liability from the Governmental Activities, Business-Type Activities or College and University Funds statement of net assets.

Governmental Activities – As of June 30, 2002, bonds outstanding of \$807,849,000 are defeased.

College and University Funds – As of June 30, 2002, bonds outstanding of \$110,189,000 are defeased.

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2002

Note 13 – Interfund Assets and Liabilities

A summary of interfund assets and liabilities at June 30, 2002, is shown below (in thousands of dollars):

<u>Due From/To Other Funds</u>	<u>Assets</u>	<u>Liabilities</u>
General Fund	\$ ---	\$ 19,344
Public Education	8,260	125
Conservation and Environmental Protection	4,937	992
Transportation and Law Enforcement	---	1,425
State Road Fund	2,508	---
Non-Major Governmental Funds	---	748
State Lottery	---	8,345
Non-Major Enterprise Funds	---	335
Internal Service Funds	8,804	467
Fiduciary Funds	32,440	20,231
Non-Major Component Units	---	4,937
	<u>\$ 56,949</u>	<u>\$ 56,949</u>

Interfund assets and liabilities are recorded for payroll liabilities, group insurance, deferred compensation, and retirement. Interfund assets and liabilities are also recorded for transfers of money to Public Education from the State Lottery and between the State Road Fund and Fiduciary Funds.

<u>Advances To/From Other Funds</u>	<u>Assets</u>	<u>Liabilities</u>
General Fund	\$ ---	\$ 45,345
State Road Fund	---	65,803
Fiduciary Funds	45,345	3,202
Non-Major Component Units	71,875	2,870
	<u>\$ 117,220</u>	<u>\$ 117,220</u>

Interfund advances, which are not expected to be repaid within one year, include \$69.0 million due from the State Road Fund and Fiduciary Funds to the Component Units and \$45.3 million due from the General Fund to Unclaimed Property, a Fiduciary Fund.

The loans from the Component Units were for the construction of additional State highways. Loans from the Unclaimed Property Fiduciary Fund were to provide for cash requirements.

The Government-Wide Combined Statement of Net Assets reports due to/due from other funds on a consolidated basis. The governmental activities column of the statement has been adjusted by eliminating \$29 due from the State Road Fund, \$20 due to the General Fund, and \$9 due to Transportation and Law Enforcement.

Advances between non-major component units of \$2,870 have been eliminated on the Combining Statement of Net Assets Component Units and the Government-Wide Combined Statement of Net Assets.

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2002

Note 14 – Interfund Transfers

All transfers must be legally authorized by the legislature through transfer appropriations. Interfund transfers for the fiscal year ended June 30, 2002 are as follows (in thousands of dollars):

Transfers In:					
	General Fund	Public Education	Conservation and Environmental Protection	Transportation and Law Enforcement	State Road Fund
Transfers Out:					
General Fund	\$ ---	\$ 2,220,546	\$ ---	\$ 8,117	\$ 38
Public Education	3,066	---	---	---	---
Conservation and Environmental Protection	2,438	---	---	---	---
Transportation and Law Enforcement	2,136	---	---	---	165,212
Non-Major Governmental Funds	243,064	36,296	9,043	---	---
State Lottery	33	161,157	---	---	---
Non-Major Enterprise Funds	1,780	---	---	862	---
Internal Service Funds	4,838	---	---	---	---
Fiduciary Funds	15,442	---	---	---	---
Non-Major Component Units	34	---	---	---	---
Totals	\$ 272,831	\$ 2,417,999	\$ 9,043	\$ 8,979	\$ 165,250

Continues Below

	Non-Major Governmental	Non-Major Enterprise	Fiduciary	Colleges and Universities	Totals
Transfers Out:					
General Fund	\$ 124,740	\$ ---	\$ 17,300	\$ 674,135	\$ 3,044,876
Public Education	---	---	107	79,261	82,434
Conservation and Environmental Protection	3,561	---	923	---	6,922
Transportation and Law Enforcement	2	---	1,489	---	168,839
Non-Major Governmental Funds	8,751	7,820	646	---	305,620
State Lottery	---	---	---	---	161,190
Non-Major Enterprise Funds	---	---	365	---	3,007
Internal Service Funds	---	---	181	---	5,019
Fiduciary Funds	629	---	---	---	16,071
Non-Major Component Units	---	---	---	---	34
Totals	\$ 137,683	\$ 7,820	\$ 21,011	\$ 753,396	\$ 3,794,012

Principle reasons for interfund transfers include:

- move general revenue funds to support elementary and secondary education
- move revenue from the State Lottery to support elementary and secondary education
- move general revenue funds to support social assistance programs reported in non-major governmental funds
- move funds related to the construction of capital assets.

During fiscal year 2002, certain funds were required to reimburse the central service agencies for overhead costs incurred on their behalf. The total amount reimbursed was \$13 million.

STATE OF MISSOURI
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Note 15 – Restatements

During fiscal year 2002, additional information became available which required the restatement of fund equity amounts. The following table presents a summary of these restatements by fund categories (in thousands of dollars). See *Note 2 – Reporting Changes and Reclassifications* for more details.

	June 30, 2001 Fund Balance/ Fund Equity as Previously Reported	Fund Reclassifications	Other Prior Period Adjustments	June 30, 2001 Fund Balance/ Net Assets as Restated
GOVERNMENTAL FUNDS AND ACTIVITIES				
Major Funds				
General Fund	\$ 990,090	\$ 39	\$ 283	\$ 990,412
Public Education	404,290	205	(6,226)	398,269
Conservation and Environmental Protection	684,715	844	(4,605)	680,954
Transportation and Law Enforcement	167,640	---	(30)	167,610
State Road Fund	207,549	---	(27,055)	180,494
Non-Major Governmental Funds				
Special Revenue	412,366	18,373	(50)	430,689
Debt Service	113,248	---	---	113,248
Capital Projects	184,038	---	5	184,043
Permanent	---	38,650	---	38,650
Total Governmental Funds	<u>3,163,936</u>	<u>58,111</u>	<u>(37,678)</u>	<u>3,184,369</u>
Reconciling Items to Government-Wide Statements				
Revenue Recognition	---	---	365,394	365,394
Capital Assets, Net of Depreciation	---	3,616,424	22,642,423	26,258,847
General Long-Term Obligations	---	---	(2,081,722)	(2,081,722)
Other Reconciling Items	---	---	153,732	153,732
Internal Service Fund Conversion	---	367,874	3,039	370,913
Total Reconciling Items	<u>---</u>	<u>3,984,298</u>	<u>21,082,866</u>	<u>25,067,164</u>
TOTAL GOVERNMENTAL FUNDS AND ACTIVITIES	<u>\$ 3,163,936</u>	<u>\$ 4,042,409</u>	<u>\$ 21,045,188</u>	<u>\$ 28,251,533</u>
PROPRIETARY FUNDS AND BUSINESS-TYPE ACTIVITIES				
Major Funds				
State Lottery	\$ 8,403	\$ ---	\$ 6,226	\$ 14,629
Unemployment Compensation	---	464,083	---	464,083
Non-Major Funds				
Enterprise	342,914	(349,235)	(926)	(7,247)
Internal Service	62,101	(62,101)	---	---
TOTAL PROPRIETARY FUNDS AND BUSINESS-TYPE ACTIVITIES	<u>\$ 413,418</u>	<u>\$ 52,747</u>	<u>\$ 5,300</u>	<u>\$ 471,465</u>
FIDUCIARY FUNDS				
Pension Trust	\$ 6,943,409	\$ ---	\$ ---	\$ 6,943,409
Private-Purpose Trust	---	812,681	(2)	812,679
Expendable Trust	1,257,578	(1,257,576)	(2)	---
Non-Expendable Trust	38,650	(38,650)	---	---
TOTAL FIDUCIARY FUNDS	<u>\$ 8,239,637</u>	<u>\$ (483,545)</u>	<u>\$ (4)</u>	<u>\$ 7,756,088</u>
ACCOUNT GROUPS				
General Fixed Assets	\$ 3,611,611	\$ (3,611,611)	\$ ---	\$ ---
TOTAL ACCOUNT GROUPS	<u>\$ 3,611,611</u>	<u>\$ (3,611,611)</u>	<u>\$ ---</u>	<u>\$ ---</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 15,428,602</u>	<u>\$ ---</u>	<u>\$ 21,050,484</u>	<u>\$ 36,479,086</u>
DISCRETELY PRESENTED COMPONENT UNITS				
Colleges and Universities	\$ 6,622,157	\$ ---	\$ (3,428,352)	\$ 3,193,805
Non-Major Funds	178,779	---	(59,336)	119,443
TOTAL NET ASSETS FOR DISCRETELY PRESENTED COMPONENT UNITS -- RESTATED	<u>\$ 6,800,936</u>	<u>\$ ---</u>	<u>\$ (3,487,688)</u>	<u>\$ 3,313,248</u>

STATE OF MISSOURI
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Note 16 – Fund Deficit

The following funds had deficit balances:

Enterprise Fund – Petroleum Storage Tank – At June 30, 2002, a net asset deficit of \$51,222,000 existed due to insufficient transport load fees collected to cover the estimated claims liability for clean up of petroleum storage tank leaks. This liability amount is the cumulative result of numerous years of petroleum storage tank leaks. Per Section 319.129, RSMo, this fund will be closed on December 31, 2010, or upon revocation of federal regulation 40 CFR, whichever occurs first, unless extended by action of the general assembly. Various alternatives are being considered to pay off the claims liability amount of this fund. Per Section 319.131, RSMo, the liability of the petroleum storage tank fund is not the liability of the State. Upon dissolution of this fund, the liability would be liquidated.

Internal Service Fund – Conservation Employees’ Insurance Plan – At June 30, 2002, this fund had a net asset deficit of \$1,012,000. This deficit occurred when revenue from insurance premiums was not sufficient to cover the cost of claims. In fiscal year 2002, there were a few exceptionally large claims processed which caused the fund deficit. The Board will continue to monitor the deficit and may increase contribution rates, if required.

Internal Service Fund – Transportation Self-Insurance Plan – At June 30, 2002, this fund had a net assets deficit of \$12,761,000. This deficit was \$4,917,000 at June 30, 2001. The deficit occurred when revenue from insurance premiums was not sufficient to cover the cost of claims. The self-insurance plan is subject to annual actuarial review which is done on a calendar year basis. The actuarial study will be completed by May 1, 2003. Any deficit will be identified and made part of the legislative appropriation process. Because of the timing of the budget request, additional funding may have to be made through supplemental process for calendar year 2003.

Internal Service Fund – Highway and Transportation Employees’ and Highway Patrol Insurance Plan – At June 30, 2002, this fund had a net assets deficit of \$5,675,000. This deficit was \$7,450,000 at June 30, 2001. Beginning January 1, 2002, the contribution rates increased resulting in a fiscal year 2002 increase to net assets of \$1,775,000. MoDOT and the Medical Board increased State contribution rates again in January 2003 for this Plan. MoDOT and the Medical Board will continue to monitor ways to recover this deficit. This may include future increases to State and member contribution rates.

Note 17 – Residual Equity Transfer

The residual equity transfer in to the General Fund is not shown because governmental fund financial statements do not report fixed assets. However, the residual equity transfer is included in the equipment balance in the government wide financial statements. A reconciliation of the transfers is as follows (in thousands of dollars):

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Office of Administration Revolving Fund	\$ ---	\$ 8
General Fund	8	---
Total	<u>\$ 8</u>	<u>\$ 8</u>

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
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Note 18 – Related Party Transactions

The Missouri State Public Employees' Deferred Compensation Plan is administered by the Public Employees Benefit Services Corporation of Missouri (PEBSCO) under a contract for a term ending June 1, 2004. PEBSCO is a wholly-owned subsidiary of Nationwide Corporation of Columbus, Ohio. Nationwide Life Insurance Company, one of the guaranteed fixed annuity and variable annuity underwriters for the Plan, is also a subsidiary of Nationwide Corporation. At December 31, 2001, total investments of the Plan were \$780,645,876 and investments in Nationwide Life Insurance Company were \$680,769,386.

The Highway and Transportation Employees' and Highway Patrol Retirement Plan reimburses the Missouri Highways and Transportation Commission for accounting, management, legal, data processing services, office space and utilities. The total reimbursement for fiscal year 2002 was \$559,721.

Note 19 – Commitments

A. Contracts

The Department of Conservation had construction contracts outstanding at June 30, 2002, of \$5,885,000. These contracts are funded through the Special Revenue Funds from specific sales tax, fees and permits.

The Department of Transportation had long-term contracts of \$982,854,579 outstanding at June 30, 2002. These contracts are paid from Capital Projects Funds with approximately 79.58% federal reimbursement expected.

The Office of Administration, Division of Design and Construction, had construction contracts outstanding at June 30, 2002, of \$197,313,742. Approximately 30% will be paid from the General Fund, 1% from the Special Revenue Funds, 5% from the Capital Projects Funds and 64% from the Internal Service Funds.

On March 10, 1988, the State of Missouri entered into a contract with the United States Army Corps of Engineers confirming an assurance agreement of April 8, 1965. The State obtained rights to a portion of the water supply storage from the Clarence Cannon Dam and Mark Twain Lake Project. The State agreed to pay up to \$10.8 million plus interest for the investment costs allocated to the water supply storage, the amount of such payments to be determined by the portion of the water storage space put in use by the State for that purpose. The contract provides a ten year interest free period running from 1984 to 1994. In fiscal year 1995, the State began making interest payments. The interest payment amount for fiscal year 2002 was \$427,398. Payment of principal and interest must be completed by the end of a 50 year period beginning from the date of the contract (March 1988).

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2002

Note 19 – Commitments (cont.)

B. Leases

The State has entered into various operating leases for land and buildings. Each lease contains a fiscal funding clause indicating that continuation of the lease is subject to annual funding by the General Assembly. It is expected that in the normal course of business most of the leases will be renewed or replaced by similar leases. Future minimum commitments due under operating leases as of June 30, 2002, were as follows (in thousands of dollars):

<u>Year Ending June 30</u>	<u>Amount</u>
2003	\$ 30,030
2004	22,921
2005	15,832
2006	12,479
2007	7,609
2008–2020	<u>12,780</u>
Total Minimum Commitments	<u>\$ 101,651</u>

Expenditures for rent under operating leases for the years ended June 30, 2002 and June 30, 2001 were \$31,670,773 and \$28,232,089, respectively.

Note 20 – Contingencies

The State is exposed to various risks of loss related to tort liability, general liability, motor vehicle liability, contractor liability, injuries to employees and desegregation. The State assumes its own liability for risks except for the purchase of surety bond, aircraft and boiler coverage.

Claims liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported including the effects of specific, incremental claim adjustment expenditures/expenses, salvage, and subrogation, and other allocated or unallocated claim adjustment expenditures/expenses. Liabilities are reported as a reconciling item to the Government-Wide Statement of Net Assets. The current portion of the liability will be presented in the General Fund. Expenditures are recognized as payments are made.

At June 30, 2002, the amount of these liabilities was \$280 million. Changes in the reported liability since June 30, 2001, resulted from the following:

	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance Fiscal Year End</u>
2001–2002	\$ 82,197,671	\$ 228,770,916	\$ (30,675,177)	\$ 280,293,410
2000–2001	109,069,624	(9,721,564)	(17,150,389)	82,197,671
1999–2000	135,921,033	(1,022,521)	(25,828,888)	109,069,624

The State receives federal grants which are subject to review and audit by federal grantor agencies. This could result in requests for reimbursements to the grantor agency for any expenditures which are disallowed under grant terms. The State believes that such disallowances, if any, would be immaterial.

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2002

Note 20 – Contingencies (cont.)

Loan Guarantees:

The State appropriates money to the Development Finance Board for the purpose of making loan guarantees. Upon default of a guaranteed loan, the Board makes the payment for default from State appropriations. The total loans outstanding at June 30, 2002, for which the Board has guaranteed payment is \$25,461. During 2002, no loans defaulted.

The State appropriates money to the Agricultural and Small Business Development Authority for the purpose of making loan guarantees. Upon default of a guaranteed loan, the Authority makes the payment for default from State appropriations. The Authority administers the Single-Purpose Animal Facilities Loan Program and the Value Added Loan Guarantee Program, which provides a 25% first-loss guarantee on loans up to \$250,000. The total loans outstanding at June 30, 2002, for which the Authority has guaranteed payment is \$4,541,743 and \$825,841, respectively. There were no payments by the Authority for loan defaults in fiscal year 2002.

Medicaid Lawsuits:

In October of 2001, the University of Kansas Hospital Authority filed a lawsuit against the Department of Social Services/Division of Medical Services in the Circuit Court of Cole County, Missouri, challenging the reimbursement rate paid by Missouri to out of state hospitals on behalf of Missouri Medicaid beneficiaries. This action is being contested in Court and the fiscal impact is under review. In the event that plaintiff prevails in the action, the Division of Medical Services estimates that the relief KU Hospital seeks amounts to approximately \$3,710,758 for fiscal year 2002 alone. If the plaintiff prevails in their claim to collect damages for each year since 1991 the total liability of the Division of Medical Services may reach \$30,000,000, excluding interest. This is considered unlikely. The risk of loss would be shared with the federal government, approximately 40% state and 60% federal. It is estimated that application of a 5 year statute of limitation lowers the risk of loss to \$11,000,000 to \$18,000,000 if the plaintiff prevails on the claim.

Foster Care Claims:

In a letter dated December 4, 2001, the Department of Health and Human Services sent a notice disallowing payment of the federal share of certain Title IV-E foster care claims reported in the quarters ending March 31, 2001, June 30, 2001, and September 30, 2001. The amounts in question are \$2,575,720 federal share (\$5,008,537 total) for the quarter ending March 31, 2001; \$1,224,109 federal share (\$2,414,052 total) for the quarter ending June 30, 2001; and \$1,211,875 federal share (\$2,362,159 total) for the quarter ending September 30, 2001. The cumulative total Federal Financial Participation for the aforementioned quarters is \$5,011,704. This issue is being disputed and is under appeal. Pursuant to the disallowance, the Department of Health and Human Services has been withholding monies from the grant each quarter. As of June 30, 2002, the balance remaining that had not been recovered by the Department of Health and Human Services is \$2,261,107.

Use Tax Lawsuit for Machinery and Equipment:

Southwestern Bell Telephone Company vs. Director of Revenue (Case No. SC83859). The Missouri Supreme Court held that Southwestern Bell Telephone Company was entitled to a refund of sales and use tax paid on machinery and equipment used to create its digital phone service product. Manufacturing was found to include producing taxable services as well as tangible personal property products. The case was remanded to the Administrative Hearing Commission for further determination as to which items are used in manufacturing the digital phone service product. Refund requests exceed \$138.3 million for Southwestern Bell and other related telecommunication companies.

STATE OF MISSOURI
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Note 21 – Joint Ventures

The Regional Convention and Sports Complex Authority was created by State law for the purpose of financing, constructing, operating and maintaining a multipurpose convention and sports facility to be located in the City of St. Louis. The Authority operates under a Board of Commissioners of whom five are appointed by the Governor of the State, three by the Mayor of the City of St. Louis, and three by the County Executive of St. Louis County. The Authority is granted all rights and powers necessary to plan, finance, construct, equip and maintain the facility.

The Authority is considered a joint venture of the State, City and County because it constitutes a contractual agreement for public benefit in which the State, City and County retain an ongoing financial responsibility for the Convention and Sports Facility Project Bonds. In August 1991, the Authority issued \$258,670,000 of Convention and Sports Facility Project Bonds. The bonds were sponsored in the amount of \$132,910,000 by the State (Series A), \$65,685,000 by the County (Series B) and \$60,075,000 by the City (Series C). In December 1993, the Authority issued \$181,885,000 in Convention and Sports Facility Project and Refunding Bonds to advance refund \$101,410,000 and \$50,275,000 of the outstanding 1991 Series A and Series B bonds, respectively, and for additional construction costs. The bonds were sponsored in the amount of \$121,705,000 by the State (Series A) and \$60,180,000 by the County (Series B). In February 1997, the Authority issued \$61,285,000 in Series C Refunding bonds to advance refund \$47,155,000 of the outstanding 1991 Series C bonds.

Pursuant to a financing agreement entered into in August 1991, the Authority leased the facility to the sponsors who subleased the facility back to the Authority. The payments made by the State, City and County under the financing agreement are sufficient to pay the principal and interest on the bonds. See *Note 17* for more information on the 1991 and 1993 Series A Bonds sponsored by the State.

Summary financial information for the Authority as of, and for the fiscal year ended December 31, 2001, is presented below (in thousands of dollars):

Total Assets	<u>\$ 320,868</u>
Total Liabilities	\$ 225,949
Total Equity	<u>94,919</u>
Total Liabilities and Equity	<u>\$ 320,868</u>
Total Revenues	\$ 26,705
Total Expenses	<u>25,241</u>
Net Increase in Retained Earnings	<u>\$ 1,464</u>

Copies of the Authority's financial statements can be requested from:

St. Louis Regional Convention
and Sports Complex Authority
901 North Broadway
St. Louis, Missouri 63101

STATE OF MISSOURI
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Note 22 – Related Organizations

The State is responsible for appointing all or part of the members of the boards of other organizations, but the State's accountability for these organizations does not extend beyond making the appointments.

The following organizations are considered to be related organizations of the State of Missouri:

Health and Educational Facilities Authority – The Authority was created by State law and is authorized to issue revenue bonds to finance health and educational facilities for institutions within the State. The Authority also assists institutions in borrowing funds at the lowest possible cost in order to provide quality medical and educational services to State residents. These bonds do not constitute a debt or liability of the Authority or the State. Its governing body consists of seven members appointed by the Governor with the advice and consent of the Senate. The Authority's fiscal year ends December 31. Copies of the Authority's financial statements can be requested from:

Missouri Health and Educational
Facilities Authority
15450 South Outer Forty Road, Suite 230
Chesterfield, Missouri 63017

Missouri Higher Education Loan Authority – The Authority was created by State law and is authorized to issue debt to provide a secondary market for loans made under the Federal Family Education Loan Program provided for by the Higher Education Act. Its governing body consists of five members appointed by the Governor with the advice and consent of the Senate, one member of the Coordinating Board of Higher Education, and the Commissioner of Higher Education. Copies of the Authority's financial statements can be requested from:

Missouri Higher Education Loan Authority
633 Spirit Drive
Chesterfield, Missouri 63005

Housing Development Commission – The Commission was created by State law and is authorized to make or purchase mortgage loans and to insure mortgage loans, the funds of which are used to develop new or rehabilitate low and moderate income housing. The Commission is also authorized to issue bonds and notes for making or purchasing such loans. Bonds and notes issued by the Commission are not a debt of the State. The Commission has entered into a contract with the Department of Economic Development whereby the Department pays the Commission's staff salaries and related benefits from cash advanced monthly by the Commission. Its governing body is made up of the Governor, the Lieutenant Governor, the State Treasurer, the Attorney General and six members appointed by the Governor with the advice and consent of the Senate. If for any reason the Commission ceases to exist, its rights and properties shall pass to and be vested in the State, subject to the rights of lienholders and other creditors. Copies of the Commission's financial statements can be requested from:

Missouri Housing Development Commission
3435 Broadway
Kansas City, Missouri 64111

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2002

Note 22 – Related Organizations (cont.)

Missouri Technology Corporation – The Corporation was created by State law and contributes to the strengthening of the State's economy through the development of science and technology, promotes the modernization of Missouri businesses by supporting the transfer of science, technology and quality improvement methods to the workplace and enhances the productivity and modernization of Missouri businesses by providing leadership in the establishment of methods of technology application, technology commercialization and technology development. Its governing body consists of eleven members appointed by the Governor, the director of the Department of Economic Development, the president of the University of Missouri, a member of the Senate and a member of the House of Representatives. Copies of the Corporation's financial statements can be requested from:

Department of Economic Development
Division of Administration
P.O. Box 1157
Jefferson City, Missouri 65102

Public Entity Risk Management Fund – The Fund was created by State law and is authorized to provide liability protection to participating public entities, their officials and employees. The Fund reimburses the State of Missouri for all administrative costs. Its governing body consists of six members; the Attorney General, the Commissioner of Administration and four members appointed by the Governor with the advice and consent of the Senate. Copies of the Fund's financial statements can be requested from:

Missouri Public Entity Risk
Management Fund
P.O. Box 105080
Jefferson City, Missouri 65110-5080

Public School Retirement System – The System was created by State law and provides retirement benefits to employees of public school districts in the State, with the exception of the St. Louis and Kansas City districts. The State participates in the System as an employer of certified teachers who are members. However, the major financial support is from the public school districts. Its governing body consists of seven members; four elected by the System's members, and three members appointed by the Governor with the advice and consent of the Senate. Copies of the System's financial statements can be requested from:

Public School Retirement System
of Missouri
P.O. Box 268
3210 West Truman Boulevard
Jefferson City, Missouri 65109

STATE OF MISSOURI
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Note 22 – Related Organizations (cont.)

State Environmental Improvement and Energy Resources Authority – The Authority, created by State law, is an independent, self-supporting, quasi-governmental agency, governed by a five member Board appointed by the Governor with the advice and consent of the Senate. The Authority is administratively placed in the Department of Natural Resources. The Authority is authorized to finance, acquire, construct and equip projects for the purpose of reducing, preventing or controlling pollution and to provide for the development of energy resources of the State. The usual method of financing is through the issuance of tax-exempt revenue bonds and notes. In March 1992, pursuant to Senate Bill #530, Section 260.335, RSMo, the Authority entered into an interagency agreement with the Department of Natural Resources (DNR) and the Department of Economic Development (DED) to promote markets for recycled materials. As required in that legislation, the program has been provided annual funding of \$1,000,000 upon appropriation by the Missouri Legislature, from the Solid Waste Management Fund, through fiscal year 1997. In fiscal year 1998, the funding changed to 10% of the Fund, not to exceed \$1,000,000. The Authority, in cooperation with the Missouri Clean Water Commission and other agencies, established and operates the State Revolving Fund (SRF), which provides financing to communities and districts for construction of clean water and drinking water projects. In cooperation with the Public Service Commission (PSC), the Authority has also established a bond and note financing program to assist privately owned water and wastewater treatment facilities. The Authority's employees are covered under the State retirement system with all contributions being made by the Authority. Upon termination or dissolution of the Authority, all rights and properties shall pass to and be vested in the State, subject to the rights of noteholders, bondholders and other creditors. Copies of the Authority's financial statements can be requested from:

State Environmental Improvement and
Energy Resources Authority
325 Jefferson Street, Suite 200
Jefferson City, Missouri 65101

Jackson County Sports Complex Authority – The Authority was created by State law and is responsible for the construction, operation and financing of the Jackson County Sports Complex. The funds and related accounts are maintained by fiscal agents who administer all investment transactions and act as paying agents for bond transactions. Its governing body consists of five members appointed by the Governor with the advice and consent of the Senate. Copies of the Authority's financial statements can be requested from:

Jackson County Sports Complex Authority
8501 Stadium Drive
Kansas City, Missouri 64129-1698

Kansas City Regional Sports Complex Authority – The Authority was created by State law and is responsible for the study and review of all current major sports leagues, clubs, or franchises operating in Kansas City and analyzing the possibilities of future growth. Its governing body consists of seven members appointed by the Governor with the advice and consent of the Senate. Copies of the Authority's financial statements can be requested from:

City of Kansas
Finance Department
1st Floor, City Hall
414 East 12th Street
Kansas City, Missouri 64106-2793

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
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Note 22 – Related Organizations (cont.)

St. Charles County Convention and Sports Facility Authority – The Authority was created by State law and is responsible for planning, constructing, and managing convention and sports facilities in the St. Charles area. Its governing body consists of five members appointed by the Governor with the advice and consent of the Senate. Copies of the Authority's financial statements can be requested from:

St. Charles County Convention and
Sports Facility Authority
P.O. Box 858
St. Charles, Missouri 63302

Springfield Convention Center Authority – The Authority was created by State law and is responsible for the construction, operation and financing of the Ozark Empire Fairgrounds Project. The funds and related accounts are maintained by fiscal agents who administer all investment transactions and act as paying agents for land transactions. Its governing body consists of five members appointed by the Governor with the advice and consent of the Senate. Copies of the Authority's financial statements can be requested from:

City of Springfield
Finance Department
P.O. Box 8368
840 Boonville Avenue
Springfield, Missouri 65801-8368

KCT Intermodal Transportation Corporation (KCT-ITC) – The Corporation is a not-for-profit corporation organized under the Missouri Transportation Corporation Act. KCT-ITC is authorized to issue revenue bonds for the purpose of paying all or any part of the cost of constructing a railroad bridge to effectuate a grade separation of two at-grade rail crossings in the Blue Valley Industrial District in Kansas City, Missouri. The KCT-ITC's obligations are financed by a cost-sharing agreement of the member railroads of Kansas City Terminal. The Missouri Highways and Transportation Commission has no control over toll rates or corporation management and does not approve any debt of the KCT-ITC. Therefore, the Missouri Highways and Transportation Commission is not considered financially accountable and information for the KCT-ITC is not included within the accompanying combined financial statements. The governing body consists of a board of directors appointed by the Missouri Highways and Transportation Commission. Copies of the financial statements can be requested from:

Department of Transportation
Controller's Office
1445 Christy Drive
Jefferson City, Missouri 65109

STATE OF MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
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Note 22 – Related Organizations (cont.)

Lake of the Ozarks Community Bridge Corporation – The Corporation is a not-for-profit corporation organized under the Missouri Transportation Corporation Act. It is authorized to issue revenue bonds for the purpose of paying all or any part of the cost for acquisition and construction of a toll bridge over the Lake of the Ozarks in Camden County. Its governing body consists of a seven member board of directors each of whom is appointed by the Missouri Highways and Transportation Commission. When the purpose for which the Corporation was formed have been complied with and all obligations of the Corporation have been paid, the board shall, with the approval of the Commission, dissolve the Corporation. Upon dissolution, any assets of the Corporation will be liquidated and deposited in the State Road Fund and will become the property of the Commission. The Corporation's fiscal year ends April 30. Copies of the Corporation's financial statements can be requested from:

Missouri Department of Transportation
Controller's Office
1445 Christy Drive
Jefferson City, Missouri 65109

Note 23 – Subsequent Events

General Obligation Bonds – New Issue:

On August 1, 2002, the State of Missouri, Board of Fund Commissioners issued \$15,000,000 of Stormwater Control General Obligation Bonds, Series A 2002. The bond proceeds will be used to provide funds for stormwater control plans, studies and projects in counties of the first classification and in any city not within a county. The interest on these bonds range from 3% to 5.25% and have a final maturity date of August 1, 2027.

On August 1, 2002, the State of Missouri, Board of Fund Commissioners issued \$30,000,000 of Water Pollution Control General Obligation Bonds, Series A 2002. \$15,000,000 of the bond proceeds will be used to provide funds for the protection of the environment through the control of water pollution and to carry on the program of planning, financing and constructing sewage treatment facilities. The other \$15,000,000 will be used to provide funds for the control of water pollution and improvements to drinking water system, and for stormwater control. The interest on these bonds range from 3% to 5.25% and have a final maturity date of August 1, 2027.

On October 1, 2002, the State of Missouri, Board of Fund Commissioners issued \$147,710,000 of State Water Pollution Control General Obligation Refunding Bonds, Series B 2002; \$211,630,000 of Third State Building General Obligation Refunding Bonds, Series A 2002; and \$154,840,000 of Fourth State Building General Obligation Refunding Bonds, Series A 2002. The bond proceeds will be used to refund \$530,075,000 aggregate principal amount of outstanding bonds. The interest rates range from 3.375% to 5% and have a final maturity date of October 1, 2021.

Missouri Higher Education Loan Authority:

On July 23, 2002, the Authority issued \$700,000 in student loan revenue bonds under the 1994 General Resolution. The debt includes taxable auction rate bonds, maturing July 1, 2032.

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Note 23 – Subsequent Events (cont.)

Missouri Housing Development Commission:

On September 5, 2002, the Commission issued \$4,400,000 of Multifamily Housing Revenue Bonds, Series II 2002.

On September 18, 2002, the Commission issued \$80,000,000 of Single Family Mortgage Revenue Bonds (Homeownership Loan Program), Series C 2002.

Agricultural and Small Business Development Authority:

Between July 1 and August 23, 2002, the Authority issued Certificates of Guarantee in the amount of \$32,473 guaranteeing 25% of the \$129,892 loans issued.

Lake of the Ozarks Community Bridge Corporation:

In July 2002, the Corporation entered into a conduit occupancy licensing agreement with a cable communication provider. The term of the agreement is 50 years and allows the cable company to locate cable conduit on the underside of the Bridge. The license fee for the duration of the agreement is \$273,000.

Southwest Missouri State University:

On October 1, 2002, the University issued \$16,510,000 of Auxiliary Enterprise System Refunding Revenue Bonds. The bonds will be issued to provide funds, together with certain other funds of the University, to refund the Housing System Refunding Bonds, Series 1993A with an outstanding amount of \$6,425,000 and Housing System Refunding Bonds, Series 1993B with an amount outstanding of \$15,550,000, and to pay the costs of issuance of the Bonds.

University of Missouri:

In July 2002, the University sold \$85,000,000 of capital project notes at an effective interest rate of 1.60%. These notes will mature in June 2003. This annual sale of capital project notes is used to finance several small construction projects, as well as purchase of furniture, fixtures, equipment, and library books for the University.

On July 16, 2002, the University entered into a thirty-year interest rate swap agreement on \$40,000,000, notional amount, of its variable rate System Facilities Revenue Bonds. Based on the swap agreement, the University owes interest calculated at a fixed rate of 3.95% to the counterparty to the swap. In return, the counterparty owes the University interest based on a variable rate set weekly. The \$40,000,000 in bond principal is not exchanged; it is only the basis on which the interest payments are calculated.

Department of Social Services:

The United States Department of Health and Human Services issued a decision to disallow funds of \$3,193,331 which represents the Federal share of AFDC overpayments collected, but not remitted to ACF, during the period of January 1, 1997 to October 31, 2001. On November 22, 2002, the Department of Social Services paid the claim, with interest. The total payment was \$3,251,292.

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Note 23 – Subsequent Events (cont.)

Total State Revenue Refund:

Article X, Sections 16 through 24 of the Missouri Constitution establishes a revenue limit for Missouri State Government.

In fiscal year 2003, \$6 million was paid based on a Cole County Circuit Court decision regarding the treatment of refundable tax credits in the total state revenue calculations. All Article X refunds were initially paid from the General Revenue Fund, and various other funds reimbursed their share of the refund liability through operating transfers to the General Revenue Fund as appropriated by the General Assembly. The refund calculation is based on Missouri court rulings construing the term "total state revenues," including Buechner v. Bond 650 S.W. 2d 611 (Mo. banc 1983), Hancock v. Secretary of State 885 S.W. 2d 42 (Mo. App. W.D. 1994), Kelly v. Hanson and Ward 959 S.W. 2d 107 (Mo. banc 1997), Conservation Federation v. Hanson 994 S.W. 2d 27 (Mo. banc 1999), and Missouri Association of Counties v. Hanson 1999 WL 974009 (Mo.) (Mo. banc 1999).

Medicaid Lawsuits:

Cheri White v. Dana Katherine Martin, et al (Case No. 02-4154-CV-C-NKL) was filed in July 2002 in the United States District Court for the Western District of Missouri Central Division. The plaintiffs request that transitional Medicaid assistance be provided to a class of Missourians (approximately 17,000) whose Medicaid benefits were terminated. In October 2002, the district court directed the State to continue the benefits. The State's cost in fiscal year 2003 of providing these benefits would be about \$9 million. Future year costs would decline dramatically as the individuals would reach the end of the eligibility period for the benefits. The State has appealed the granting of the preliminary injunction to the Eighth Circuit. The case is proceeding at the district court level in discovery regarding the obligation of the Department of Social Services regarding the ex parte review necessary for the potential class members (approximately 8,000).

S. McNeil-Terry et al v. D. Katherine Martin, et al (Case No. 024-1662) was filed in St. Louis City Circuit Court in July 2002. The plaintiffs request that certain Medicaid dental benefits continue to be provided to a class of Missourians whose benefits were reduced. The State's cost in fiscal year 2003 of providing these benefits would be about \$5 million. In August 2002, the circuit court directed the State to continue the benefits in a preliminary order. The parties are performing discovery in preparation for a permanent injunction hearing.

Gina Eklund v. Dana Katherine Martin, et al (Case No. 02CV26255-Div. 3) was filed in Jackson County Circuit Court in September 2002. The plaintiffs request that Medicaid assistance be provided to a class of Missourians in the Medicaid spend down program whose benefits were reduced. The State's cost in fiscal year 2003 of providing these benefits would be about \$16 million. In October 2002, the court denied the plaintiffs' request for a temporary restraining order. The plaintiffs have subsequently amended their petition to add a third plaintiff. The State has filed a motion to change venue to Cole County and a motion to dismiss the petition. The parties are awaiting the court's ruling on these motions.